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Budget likely to offer new export incentives - at last

by John Draper

THE Government's long-awaited revised export incentive scheme is expected to be mentioned yet again in the Budget.

But this time, a starting date is almost certain, and the Government will introduce a scheme that was hinted at in 1976, outlined in 1977, and further discussed in 1978.

The new scheme is likely to abolish incentives based on export growth in favour of net foreign earnings.

Industries with a high local content will gain, those that assemble or process imported parts for re-export will in the long-run lose.

Such a change will be billed as a major long-term restructuring of the economy boosting exports, creating jobs while discouraging imports.

According to one NBR source, individual manufacturers may be offered a choice — stick with the existing scheme, or accept the new scheme. Once that decison has been made, however, a company could not switch schemes.

Such a choice would solve one of the problems of winning acceptance for a new incentive scheme — the protests from manufacturers who would be disadvantaged by reforms on the lines advocated by Government advisers.

Meanwhile, departmental officials have been talking with businessmen in Auckland and other centres over recent weeks, familiarising them with the new proposals and canvassing support.

The National Party's 1975 election manifesto raised the question of revising the incentives.

Academics and some major exporters then were pointing out the inequities of the existing scheme.

Under the existing arrangements, goods with a high domestic content receive the same incentive as those with a high imported content.

Bulk pharmaceutical products, for instance, imported and broken down into retail packs and re-exported to the South Pacific, qualify for the same incentive as wood pulp which has close to 80 per cent domestic content.

A 15 per cent minimum added value threshold was introduced in 1977, increasing to the present 35 per cent.

A survey by the Institute of Economic Research for the Government found the average domestic content of manufactured goods which qualify for the existing incentives was already a surprising 72 per cent.

The range was wide, even within the same industry grouping. In some cases it dipped below 30 per cent.

The survey and the institute's recommendations formed the basis for discussions over the past year between manufacturers, Treasury, Trade and Industry and the Inland Revenue.

Manufacturers have been opposed to any scheme likely to be more complex than the existing wide range of incentives and tax write-offs.

In principle, net foreign earnings is a simple base. But the calculations in reality are long and complex.

Direct imported content is relatively straightforward to determine, but the domestic content in power, fuel, transport and other services is not so easy.

There are several options as to when and where the domestic content can be calculated — for instance, ex factory or at the point of export (FOB).

In theory it can be calculated for each product or more likely for each product grouping or industry.

Once set the appreciation should be relatively simple. At least that is the manufacturers hope.

Stagnating exports, specially over the last 18 months, cutting growth based incentives is likely to encourage a quick switch to the new system when it is introduced, probably on April 1 next year.

Manufacturers with a low domestic content in their exports are more likely to continue with the existing scheme until it expires in March 1983.

It is unlikely the Government will make the changeover an opportunity to reduce the level of export support, now running at an estimated $60 million.

In the 1977 Budget, Finance Minister Rob Muldoon emphasised "that it is the Government's intention to maintain total assistance at least at the current level".

Inside:

PSIS charts a path into the '80s

by Rae Mazengarb

RUMOURS of liquidity problems and a run on funds by members seeking to place money in the 13 per cent Government stock loan have no basis, according to PSIS general manager Jim Lawrence.

Reports of "millions of dollars worth of shares" being sold at "bargain basement prices" are both "alarmist" and without foundation, he says.

It's difficult to challenge this assertion. Reports — lately tending toward a glossy image — carry little information concerning financial developments within the society, other than oblique comments referring to "today's difficult economic climate".

Economic conditions have changed markedly in the 50 years since the society was established — specially in the last few years.

But in times when other institutions have cut back on expansion plans, the PSIS has appeared to throw caution to the wind and slapped up its growth.

Some observers have accused the decision-makers of empire-building.

But Lawrence parries such accusations.

"We see our mission this way: where we see a need, we move in to meet that need."

But he adds: "The principle of pooling money has never been departed from."

Does he agree that management might have been lax in informing members of new developments within the society — for example, when the mortgage interest rate was raised from 9.5 per cent to 11 per cent and some members were caught unprepared?

JIM LAWRENCE . . . parries accusations of empire-building.

Lawrence admits that communication has been a problem in the past.

But he insists the board is now providing as much information as possible, perhaps at the risk of swamping members with brochures.

So where is the society headed?

The board has begun to chart a course "that will take the society successfully into the 1980s".

But this will entail no radical structural changes.

"Naturally there will be a new emphasis on housing," says Lawrence.

And new interest rates for term deposits will hopefully combat the drain of funds to other financial institutions.

A new Spead 'N Save scheme offers 6 per cent interest at call.

New retail policies have been introduced, along with an insurance scheme.

A halt to further capital expansion?

It's hard to say. There are no plans under immediate examination.

But it doesn't mean there will be no expansion in six months.

"We must be ready to act at any time," said Lawrence.

● PSIS: has its growth been too rapid? Page 16

Registered at Post Office Headquarters as a newspaper Incorporating Admark

A bit of charisma for the Labour Party

by Colin James

THE Labour Party has taken on board a little charisma. Jim Anderton has got himself elected to the presidency. And, whatever the rest of the party is doing, he is off and running for 1981 now.

His aim is simply stated: to put Labour in power next election and keep it there for 20 years.

The fact that only one New Zealand Government, the Liberals, has ever achieved that shows Anderton does not think small. And in that lies both his strength and his weakness.

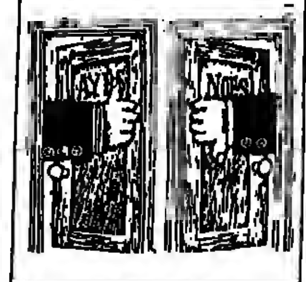
His detractors — and the narrowness of his victory over MP Joe Walding at a time when a great anti-MP tide was running in the party attests to the numbers of detractors — he is impetuous and that he does not always deliver what he promises.

Impetuosity cost him years in the cold when as Auckland regional secretary he took to the floor of the 1967 conference a challenge to union power inside the party. He was left carrying a hot brick which others who had thought likewise dropped for fear of their skins.

Anderton dares to take risks, to challenge. Thus, the older heads found they had to share the platform with him at the end of the Wellington unions' march on the opening of Parliament when they had arranged to have it to themselves.

Thus Anderton tilted at the presidency last year and might have unseated Faulkner — in election year too — if drivers secretary Stu McCaffley had not pulled out and shored Faulkner up with union votes.

This year Anderton organised: a deal with McCaffley; helpers pushing his cause with South Island branches; others working on the unions to erase old memories. At the Federation of Labour conference Anderton backer Helen Clark patiently lobbied potential votes.



POLITICS

His support reflected the groundwork. Half the unions, including the normally conservative hotel workers, third biggest union in the country, voted for him; branch delegates outside Auckland went strongly his way (though intriguingly, and perhaps ominously, Auckland favoured Walding); even many MPs backed him.

And into national politics stepped a face. Anderton is handsome, with an undeniably attractive public presence and a skilful turn of phrase. He carries his 41 years as if they were 35 and exudes a restless energy — a man who can work through the night and then get on with the next day.

It adds up to magnetism. At one stage when he spoke I was sitting in the body of the hall with some delegates and the pull on those around me was almost palpable. The last time I have witnessed that at a Labour gathering was when Norman Kirk was still around.

Anderton is capable, then, of fulfilling one part of his role: inspiring the troops. He has promised to tour the electorates and the unions and it can be safely assumed he will.

He is capable also of projecting a new face of the Labour Party to the public — assured, modern, articulate and liberal. "John F Kiwi", somebody called him. He will be a high-profile president.

In both those aspects he will at least match National's George Chapman, who is held almost in awe in the Labour Party. The real test of Anderton's presidency, however, will be whether he can improve Labour's soggy organisation and bring in the money.

He will have help. McCaffley, now senior vice-president, is a capable union organiser. And in Helen Clark, the sole woman on the executive, he has an astute and innovative mind.

Clark is one of the party's rising stars, a university lecturer with her feet on the ground, widely respected both in union and branch circles.

She was narrowly beaten for the junior vice-presidency by workers union leader Dan Duggan, who is more in the old, conservative, mould of trade union Labour Party activist — probably because some people drew back at the thought of electing the whole Anderton ticket to the top three spots.

But then she topped the poll for the executive with a staggering 690 votes. At age 29, she looks set to become a formidable force in Labour Party politics.

She will need to be, from the women's point of view. It is, apparently, a lonely task being one woman on an executive of men.

Margaret Shields one of two women, with FOL executive member Sonja Davies, on the important policy council, presenting the labour women's council report, talked of "the weight of male domination, caution and sometimes political compromise".

Shields went on to state a simple truth for under-represented groups: that they must achieve parity at all levels. That is not the case now. Real influence for women in either major political party is a long way off.

Influence can be obtained in other ways. Caucusing is one. Delegates from the northern half of the South Island met on the Monday night of the conference to plot how they would vote and succeeded in getting on to the executive two of their number, unionist Harry Brown and Christchurch Technical Institute director John Hercus.

Hercus is credited with masterminding wife Ann's campaign for selection for the Lyttelton candidacy and then her successful election campaign. That sort of experience will also aid Anderton.

Another influential caucus is the unions.

In the 1960s and 1970s such unions as remained in the party — about 40 per cent of total union membership — largely confined their activity to helping the platform beat down leftist challenges by idealistic branch delegates and defending their position within the party.

This year they planned a strategy beforehand and promoted their cause vigorously, getting four of eight elected executive members, two of five elected policy council representatives and obtaining guaranteed additional representation on the New Zealand council and the policy council.

They have set up a committee to draft a comprehensive industrial relations policy remit for next year's conference.

This expanded activity, coupled with a more articulate and progressive type of union delegate more in tune with branch delegate thinking, was a feature of this conference.

And a much greater branch delegate receptivity to trade union needs and aspirations — reflected in public statements by Anderton and Bill Rowling and the prominent participation in the ... march on Parliament forged a remarkable ... between the two wings.

In the past unity at ... conferences usually meant ... absence of mutual criticism ... was a largely paper unity ... could be turned off and ... the bosses in the two wings.

This year it goes deeper, with more union members joining the party at branch level and much more contact at district trades councils ... Some of the goodwill from the unions' side may be transitory — aimed by the left at making Federation of Labour secretaryship aspirant ... Douglas of the Socialist Unity Party more acceptable to ... nervous.

But within the Labour Party there does seem to be developing a genuine meeting of minds, such as has probably not been seen since the 1930s. If it holds, it could make ... election-winning alliance in 1981.

Much depends on how sensitively the parliamentary party responds to union and branch demands for policy ... publicity changes. Parliamentarians were warned what would happen if they don't. At the conference every MP was kicked off ... positions elected by the conference.

JIM ANDERTON ... off and running for 1981.

When Faulkner laid it on the line at one point, saying in relation to policy formation that "either we're trustworthy or we're not", some delegate interjected: "You're not."

Rowling made some concessions to the new mood in his rather spongy leader's address to the conference and in his address to the union march.

But he shows no sign yet of reaching for the greater prize: the injection of vision into the new alliance which could make a powerful, progressive coalition out of what is essentially a directionless, short-term, defensive holding together.

Rowling is an organisation man, one of the party's most able presidents and in that role co-architect of the 1972 victory, but with the limitations of an organisation man.

The rank and file are fond of him, but they are not moved by him the way Kirk at his best could move them.

Ironically, it is Anderton who seems to have that quality and who, to Rowling's discomfort, probable future discomfort, seems ready to exploit it. Trust the Labour Party to get it the wrong way round.

TWO weeks ago I mentioned that the state unions had ... staged the Federation of Labour in the general wage order application last year. The reference should have been to 1977.

Discipline poses pay bargaining problem

by Colin James

EMPLOYERS' Federation proposals to change the system of pay bargaining risk foundering on the problem of maintaining industrial discipline.

The proposals presented formally to the Government last week, want much greater involvement of the Employers' Federation and the Federation of Labour in the pay-fixing process.

Initial reaction by the Prime Minister, Robert Muldoon, was said to be favourable.

Initial reaction by the FOL was that no new system would work unless it was accepted by its affiliated unions. Time was needed for discussion.

But spare days may not be in plentiful supply. The Government has since the general elections shown increasing signs of impatience with union wage demands.

Faced with rising inflation again, the Government has repeatedly warned that wage rises must be contained.

The cornerstone of the Employers' Federation suggested solution, is an annual discussion between the federation, the FOL and the Government to set guidelines for wage increases that the economy, and particularly the export sector, can afford.

As the employers see it, the present system of wage fixing pays no, or little attention to economic constraints. A highly developed system of relativities fuels a self-perpetuating round of pay increases.

General wage orders, originally introduced to protect the low-paid by setting minimum award levels, have become the "icing on the cake".

Under the employers' proposal, general wage orders would disappear. The tripartite discussions would aim to reach understanding on an appropriate "wage path" within which unions and employers would negotiate awards.

This owes something to the Swedish system of yearly guidelines set by the Government and the central employers and union organisations.

But neither the Employers' Federation nor the FOL have sufficient disciplinary control to ensure their members would abide by the guidelines.

The FOL is a loosely-grouped confederation which cannot bind its affiliates. The Employers' Federation has improved discipline since the advent of Jim Rowe as director, but is still far short of the tightly-knit body the proposal implies.

Employers' Federation policy and planning co-ordinator Max Bradford said in January that the state should retain backup powers if the guidelines were excessive or not kept. This is not in the present proposal, the federation considering it to be a matter for the Government to decide, but I understand the federation still thinks it desirable.

In any case, the movement over the past 10 years or so has not been toward greater centralisation, but toward more bargaining at shop floor or plant level. Even in Sweden this has been so.

The upshot has been, as the employers note in their paper, the development of a third tier of wage fixing — house agreements at plant level fixing margins above the award.

The employers want to replace this three-tier arrangement with a dual system, under which negotiating parties would choose whether to operate under the conciliation and arbitration system or outside it.

If they chose this system, they could obtain the benefits: blanket coverage of the industry, state enforcement of the award, financial assistance with negotiations and sole collective bargaining rights.

But with the benefits, would go compulsory arbitration in the event of failure to agree and a bar on the right to strike.

The alternative would be free bargaining without state sanctions, though agreements would be enforceable by the parties in the Arbitration Court.

The employers' document is not clear on what would happen to parties who took industrial action while operating within the C and A system. But I understand the employers have given the Government draft legislation suggestions which are specific on this point and suggest a number of possible sanctions — such as loss of blanket coverage, the right to apply to the Arbitration Court for an order to return to normal working and the right to shut down a whole plant even though only some workers are on strike.

The dual system proposed by the employers is aimed at removing what it sees as a "best-of-both-worlds" advantage for unions which withdrew from conciliation, pick off a few employers to make gains and then re-enter conciliation to force, through the C and A mechanism, all employers to comply.

It comes back, therefore, to discipline. If employers maintained a united front, the complaint would not apply.

One independent commentator said last week the document is an acknowledgement of the employers' failure to maintain solidarity.

The same goes for complaints about union pressure point tactics. Unions now tend to press major claims through a homogeneous group of workers with disproportionate industrial clout.

A recent example was the refrigerated truck drivers action for a week's extra holiday which would have flowed on to the general drivers award.

The employers want issues such as this dealt with at national level, between the Employers Federation and the FOL.

The FOL's constituent unions are not likely to be keen on this, fearing it as a device for sidelining the claim.

In fact some unions have been calling for FOL policies on pressing claims such as for travelling allowances — not by negotiations between the central organisations but by way of FOL-wide support for a union spearheading the claim.

This would be pressure point tactics at a higher level, using the full resources of the union movement.

The answer, one knowledgeable independent observer suggested last week, did not lie in formal state-backed procedures but in employers countering the tactic with similar solidarity.

This is apparently common in the United States, where industries maintain strike funds and victory goes to the side with the biggest strike fund.

In at least one recent dispute here, a rudimentary form of mutual employer support was used, I understand.

One proposal by the employers will secure widespread approval, including some from within the union movement.

It seeks amalgamation of awards and unions into industry groupings instead of the present craft-based divisions.

At present, for example, the electrical workers award covers electricians across many different industries and types of employers.

Conversely single large employers (such as the pulp and paper companies) often find they have to negotiate with up to 15 unions.

The new president of the FOL, Jim Knox, has vowed to push forward union amalgamation.

But such amalgamation as has taken place has been along the lines of pulling together various craft-based unions into larger groups, rather than cutting across craft lines to form new industry-based groupings.

The essentially conservative craft leaders are not likely to make regrouping along industry lines an easy process.

The fifth main suggestion made by the employers was for more use of laid-down disputes procedures. To encourage that, they proposed less reliance on the state-imposed disputes procedure and the development of tailor-made procedures for each plant or industry.

EDITORIAL

WHEN belatedly published a few months before last year's general election, the rolls were found to be a shambles. They were revised, but errors continued to be found. Nevertheless, just a week or so before polling day, the then Justice Minister David Thomson gave yet another assurance that all would be well. The Government was determined "to do everything in its power to ensure that no voter who is qualified and has carried out his obligations is deprived of an effective vote," Thomson said.

After the election, there was more controversy. Widespread allegations of voting irregularities, the narrow margin between candidates in several seats and the closeness of the overall result prompted both Labour and National to challenge results through the expensive, time-consuming and rarely invoked petitioning process.

That resulted in the Electoral Court's judgment on the Hunua election. The judgment provoked Prime Minister Rob Muldoon to accuse Labour canvassers of "widespread malpractice" in the way they influenced the registration of voters, specially of Maoris and Polynesians, in marginal seats. This in turn prompted the police to study the Hunua judgment to see if police action is required. The judgment also raised the hopes of Robert Fenton that he might regain Hastings.

In Parliament, Labour's Malcolm Douglas made his maiden speech as MP for Hunua last Wednesday (by moving a notice of motion which attacked the Government on the state of the electoral rolls). Next day, Douglas was evicted from the chamber and replaced by National's Winston Peters after a recount which followed the Electoral Court's decision to veto several hundred Labour votes. Clearly, there was something rotten in the state of New Zealand's electoral procedures on polling day.

It seems that grave irregularities occurred because special voting forms — combined declarations and ballot papers — could be obtained by party workers before or on polling day.

Ironically, Winston Peters' own vote was declared invalid. So, too, in just one seat, were the votes of some 500 people who had cast them in good faith and who thought they were entitled to vote.

Most of these were cast by voters in the Otara area, and bring into question the extent to which our voting procedure amounts to a literacy test. The law requires voters to mark ballot papers by striking out the name of every candidate except the one for whom he wishes to vote. Interpreting this strictly, the court said the greater adherence there was to the statute's requirement, the less room there was for complaint. Thus it disallowed votes recorded with a tick or a cross alongside the candidate, and so effectively resolved the apparent contradiction in an Act which also says returning officers shall accept votes where the intention of the voter is clearly indicated.

Justice Minister McLay appears satisfied that by so ruling, the court has done nothing more than confirm what was clearly known to be the law. But last week, TV1's "Dateline Monday" asked people chosen at random to decide a sportsman of the year on a form whose instructions were identical to those on a voting form. Some 20 per cent of the respondents would have had their votes disqualified by the court's judgment — a fact which has serious implications for a Parliament concerned to ensure that an election isn't a literacy test.

A vote is not a privilege; it is a right. And ideally, a vote should count whether you are powerful or powerless, enthusiastic or apathetic, well informed — or ignorant.

Parliament's task therefore is clear: it must hasten to legislate both to authenticate the rolls and to facilitate voting by those people who do not comprehend the instructions as they are now set out. The issue is too fundamentally vital to accommodate the conditional promises of McLay (who said he "will give an undertaking to produce the clean rolls providing the Labour Party will give an undertaking not to involve itself in malpractise in the next election"). Only when there is confidence in the electoral system will there be confidence in the results of general elections.

Bob Edlin

SOME of his journalistic colleagues obviously weren't amused when Listener cartoonist and humorist Tom Scott wrote about the goings-on at a booze-up for Press Gallery personnel and politicians.

Each year, the Press Gallery entertains the politicians from each party caucus, and the caucuses reciprocate. Socred's Bruce Beetham doesn't seem to be in on the action yet, so that makes a grand total of at least four organised booze-ups a year.

And apparently there is an unwritten rule that thou shalt not write about whatever happens on these merrymaking occasions.

When Scott broke the rule, outraged Gallery members met to discipline him; they moved initially to impose the supreme penalty — banishment from their midst.

They have the power to decide among themselves who should and who should not be privileged to join their number and be permitted to report on the heavy subject of politics from Parliament (they make recommendations to Mr Speaker, in whose name Parliamentary press privileges are granted or withheld).

As things turned out, Scott scraped in by one vote, on a vote to censure him, we hear.

●

"I LOOKED at Richard Prebble's amendment and, like Richard, it looked attractive at first, but you've got to go a bit deeper" — Labour MP for Lyttelton Ann Hercus about the MP for Auckland Central at the party conference last week.

●

PARTY conferences can be confusing enough for the delegate from the sticks who is not up with the manoeuvrings of the factions. It gets even more difficult when the tactics of the factions change as the conference goes along. We sympathise with the delegate of the Values Party conference who was overheard complaining about people who "are voting for what they aren't really voting for".

WITHOUT WORD OF A LIE

●

Mystery meeting on ammonia-urea plant.

The public meeting called by the Waimate West County Council on the ammonia-urea plant is causing some speculation.

The meeting is tomorrow (during the week of the opening of the Maui pipeline). Accommodation in the area is heavily booked, which suggests a big attendance at the meeting.

But there have been some curious omissions from the guest list. For instance, Natural Gas Corporation officials, who are sending technical representatives, did not receive an invitation, but learnt about it from the newspaper.

A public meeting on an issue while a town and country planning hearing on proposed changes to the district scheme is pending is unprecedented.

The date of the official hearing is expected to be early July. Meanwhile, there is some feeling that the "mini-hearing" tomorrow will be pre-judging the issues.

Yet another hearing is imminent on the vital questions of abstraction and discharge of water. These will be decided only by members of the Taranaki Catchment Commission, on whom hangs the fate of the whole multi-million dollar industry proposed for Kapuni.

The Commission for the Environment is known to have reservations, both on the grounds of a projected increase in water use in the area, and the safeguarding of the future use of water for other potential developments in the area.

The possibility of a marine discharge is among one of the options now being considered to solve the knotty problem of effluent disposal.

The fragmented approach to these environmental questions is highly questionable. The issues are interlocking so why not have one official hearing which all concerned parties can attend?

●

HAUNTING, wistful music greeted the ears of delegates to the Labour Party conference this month.

"How did we lose it . . ." and "this time we'll make it" wafted over the Wellington town hall's public address system at the beginning and end of each session.

Appropriate words for the party that narrowly missed out last November. But that was not quite what the songwriter had in mind. The song was intended to help Labour win last year — and used extensively during the campaign.

Which time was that again that they will make it?

●

AUBREY Begg has always been something of a maverick in the Labour Party. In 1973, for example, he crossed the floor of the House to vote against compulsory wool acquisition.

But a few eyebrows were raised at the Labour conference by the producers' report that the primary group had agreed points raised by connection with the freezing industry.

The points were:

● The need to industry;
● Remove the Agriculture and hygiene structures the industry by the
● That killing charges individual compa justified to their cl
● That the employe selves be responsib cost of union officials.

Apparently less enthusiastic th thought, because th report was published, bers of the group and rejected his considering it mo propriate to Federat mers than the Labour

They tried to get the raised on the floor conference, but the the party constitution mesmerised the delegates little else got a look in.

Begg, meanwhile, the conference, having got himself elected powerful policy comm

Will it be Labour that the "more market" urged by National's McLean?

●

AS is now widely kn first BCNZ nat survey to cover the Radio Pacific Auckland market sh Dryden enterprise only a minor ripple. Fr am to 9 am, Pacific was to have only 2 per cent of total audience the performance that Rhema could boast from 6am to midnight shown to have 4 per ce

Which prompted Bentson, as he departed home one night, to "Well, folks, I'll be on Monday—talking to my . . ."

BROCKIE'S VIEW

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WHEN the Prime Minister gets on to the subject of the news media, too often it's to complain about something that has rankled him. But last week, questioned on the National Programme by Sharon Crosbie, his view of the media was almost beneficent. He hadn't found one country where, overall, the news media were better than in New Zealand, he said. But they were far from perfect, and didn't seem to be getting any better . . .

The standard of precision in use of the English language had declined, and so there was much less concentration on accuracy. Result: his speeches often were misinterpreted.

New Zealand had imported the practice of the news media being controversial and sensational.

Our worst papers were not as bad as the worst overseas — but our best were not as good as the best overseas, either. Radio New Zealand was very good.

But television did not match what he would like to see. It required a higher standard of excellence, and better balance because of the impact it made on its audience.

Not everybody read beyond the headlines in newspapers, but television was important because everybody saw its news at some time, Muldoon said.

He singled out only one newspaper for particular mention.

Neither the Christchurch Star, the National Business Review, the New Zealand Herald, nor the Sunday News.

He said he had been shocked to read an article in this paper the Evening Post, if you care to delve, in which the news editor disclosed his priorities in selecting the news. Number one was violence; number two was personal tragedies . . .

"That standard of selection is not a credit to the paper," said the PM (and it was difficult to quarrel with him).

That night, "Blackout chokes natural gas supply" vied for readers' attention with "Jackpot robbery arrest Number Two". And next night, "Wee boy had to die before pond filled in at Paraparaumu" took pride of place on the Post's front page.

The news editor's rankings lent support to Muldoon's observation that many newspapers concentrated on the sensational and adverse effects of economic decisions, thus making things seem worse than they were.

As Muldoon argued, there were so many economic issues which, if properly explained, would enable people to be more relaxed. And it does seem that in the case of the Post, he has some cause to question the extent to which readers are kept up with the play as he shows off his fancy footwork.

Unless, of course, Post journalists regard the PM's economic management as a matter of violence or personal tragedy.

●

AMONG those who marched on Parliament the other day was the eight-year-old daughter of a unionist. Her cry: Give the kids back their cheap ice-cream.

And it did seem the Government was going beyond the beyond in adding ice-cream and soft drink to the list of goods to be walloped by the sales tax. After all, how much more ice-cream are we going to export as a result of reducing internal consumption?

The amount remains open to speculation—but the latest Singapore Newsletter, sent out from our High Commission in Singapore, records some cold facts under the heading "Having a Lick".

The first shipment of New Zealand ice-cream was expected to arrive before the end of the month and would be sold initially through the Metro change chain, the newsletter said.

●

MAYBE the concentration of power in one pair of hands is too much for BCNZ supremo Ian Cross, who has the rare privilege of serving as both politically appointed chairman and chief executive of the same public corporation. Whatever the reason, he has gone into the restructuring business with all the religious zeal of an Ayatollah Khomeini.

Sure, he stops short at the firing squads. But last week he showed signs of believing that only he (or should it be He?) can save broadcasting from . . . well, we're not too sure.

Staff were warned that those who oppose his Grand Scheme are either stirrers or slackers, while those who cross the Tasman to find work are spineless and unbecomingly unpatriotic.

According to Auckland reports, staff there remained skeptical of the restructuring plan despite the messianic fervour injected into Cross' rallying rhetoric.

Earlier in the week, some 50 infidels committed themselves to eternal damnation by walking out on the boss after Cross had rejected a call for a public inquiry into broadcasting.

At that gathering, an apparently auspicious chairman ensured there were no outsiders present before warning his flock against "the secret enemy".

The identity of some of the secret enemy was soon disclosed: Cross named both NZ Truth and Warren Mayne, TV writer of The Dominion.

These enemies of public broadcasting had been trying to upset staff and were divisive in trying to infiltrate and split broadcasting, Cross cautioned. They should not be seen as friends.

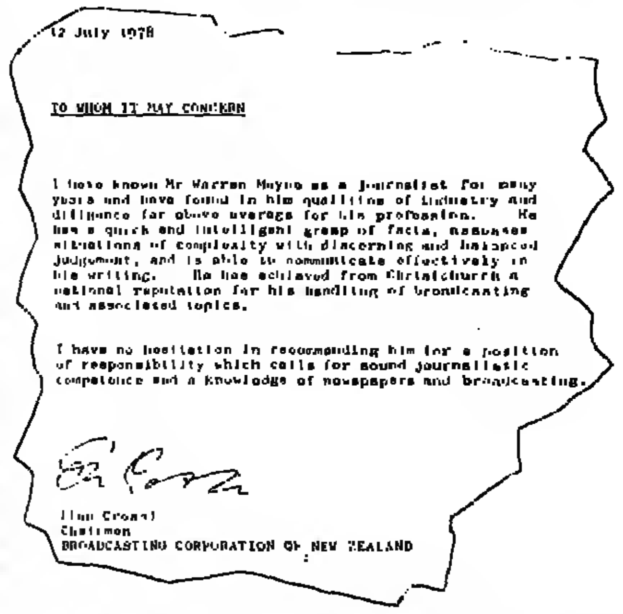
He went on to warn staff against accepting what they read in newspapers. He had known there would be attacks on his restructuring proposals, and sure enough, they had started within a fortnight of his announcing his scheme.

But the enemies of public broadcasting had been flushed out too soon, and had had to reveal their true colours before they were ready. Now they were in retreat, leaving behind a couple of rearguard snipers, (one of them: obviously Warren Mayne).

The strong implication was that INL had a vested interest in seeing public broadcasting destroyed, and that Mayne was an INL agent.

The irony is that Cross seems to have aided and abetted the employment of Mayne by INL. His signature is to be found beneath a flowing reference telling prospective employers what a fine asset Mayne would make.

And if Mayne has been trying to infiltrate Avalon—well, he seems to have succeeded. Copies of the above were to be found last week doing the rounds of the television complex a few days after Cross had launched his attack.



12 July 1978

TO WHOM IT MAY CONCERN

I have known Mr Warren Mayne as a journalist for many years and have found in him qualities of industry and diligence far above average for his profession. He has a quick and intelligent grasp of facts, assesses situations of complexity with discerning and balanced judgement, and is able to communicate effectively in his writing. He has achieved from Christchurch a national reputation for his handling of broadcasting and associated topics.

I have no hesitation in recommending him for a position of responsibility which calls for sound journalistic competence and a knowledge of newspapers and broadcasting.

(Ian Cross)
Chairman
BROADCASTING CORPORATION OF NEW ZEALAND

Fancy footwork fiscal policy

Economics Correspondent

THE ECONOMY

THE Government is taking back revenue it gave away in its election year Budget eight months after income taxes were reduced.

Tax cuts effective from October 1 last year were expected to save taxpayers some $320 million for the full year. But as from May 17, the Government is taking some revenue back again with new sales tax measures designed to increase the Government's receipts by $52 million a year.

A sales tax of 20 per cent was applied to caravans, light trailers, camper vans, boats, some office stationary, ice cream, soft drinks and other non-alcoholic drinks.

A 10 per cent sales tax now covers most household appliances, including whiteware, cutlery, tableware, kitchenware, lawnmowers and all types of handtools.

The Government also raised the price of premium grade petrol from 31.6 cents to 38.6 cents in its May 17 package.

None of this increase will go to tax. Most will go into the motor pool account to offset increases in the world price of crude oil and a slight margin has been added for retailers.

These measures were not unexpected. The Government has been foreshadowing a petrol price rise since after the election. And with the internal deficit (the central government's public account deficit of $1446 million this year, it is not surprising that the Government has raised indirect taxes as a way of enlarging its revenue.

But the timing of the Government's announcement of these measures was unexpected. The Budget is likely to be published in June. It is curious, therefore, that *the Prime Minister* chose to announce measures normally included in the Budget just a few weeks before.

Because the new measures were poorly considered (the tax on home boat builders was repealed five days after its introduction), the Government might have wished to avoid debating them.

To the benefit of the taxpayer, the Budget is debated in Parliament. But the latest indirect tax increases were announced before Parliament opened.

Although the Government cannot introduce new sales taxes without reference to Parliament, in this case it took advantage of its power to remove exemptions covered in existing legislation by passing regulations while the House was not sitting.

Inflation could have been on the Government's mind when they timed the introduction of the indirect tax package.

Since the measures take effect after the middle of May, the full impact of the estimated 1.5 per cent increase in the consumers' price index (CPI) will not show up until mid-October, when the index from the September quarter is published.

The CPI sampling period for non-food items in the June quarter would have been the middle of May. Because the sales tax increases introduced on the 17th are applied at the wholesale level, they would not have time to filter through during the May sampling period.

Only the price increases from food items such as ice cream and soft drinks will show up in the June CPI, because food prices are sampled each month.

But if the Government's intent was to control the size of the CPI, the day of reckoning could have been delayed even further by waiting until the Budget. The amount of tax revenue lost by delaying the indirect tax measures by one month would have been minimal and the effect of the taxes on prices would still not be measured until mid-August and not published until mid-October.

The Prime Minister said the sales tax had been imposed at this time because the continuing rapid increase in the money supply required restrictive measures. Latest Reserve Bank figures show that the money supply is increasing at the high rate of around 20 per cent.

Growth in the money supply can be slowed more efficiently by other policies, such as financing the internal deficit by borrowing from the private sector. The Government has been doing this with a vengeance since last October, when its first attractive savings stock was opened.

The savings stock attracted nearly $300 million and the Government's Easter cash loan has collected another $420 million (not all of it is new borrowing) from the public in just over a month.

Compared with these withdrawals from private sector consumer spending, tax increases worth $52 million over the entire year are merely a drop in the bucket.

And this view of the economic effect of the indirect tax measures is very short term.

Other economic forces, such as a growing balance of payments deficit and the lagged effects of the Government's attempts to finance its deficit internally early this year, are likely to cause a slowing in the growth in the money supply after September.

Thus the $4 or 5 million collected each month from the new indirect tax measures are hardly likely to have much effect on the money supply now. And later this year, the Government may have to reverse its restrictive measures because of tight money and depressed demand.

In the final analysis, there seems to be no good economic reason for the Government to introduce the new indirect tax measures when it did. And even if the motor pool account was getting dangerously near deficit, the Government could have waited until the Budget next month to put up petrol prices.

Recent statements suggest that there will be other normal Budget measures announced before the final Budget is presented. Perhaps the idea is to give all the bad news in small doses.

By announcing measures at other than Budget time, the Government makes sure that the taxpayer is always confused about what is really going on.

The Budget should include a clear accounting of the Government's activities so that the taxpayer can keep track of how tax revenues are being used. But the Budget's accounting statement of the Government's spending and tax policy intentions has been almost meaningless in the last three years.

As the table shows, the internal deficit has turned out to be at least $300 out from the Budget figure since 1976-77 when the present Government has had complete control over the Treasury benches. The high deficit in 1976-77 is also partly of their making.

COMPARISON OF ACTUAL AND BUDGETED GOVERNMENT DEFICITS
(millions dollars)

Year Ending March 31:	Deficit Before Borrowing as Estimated in Budget	Actual Deficit Before Borrowing	Difference Between Actual and Estimated Deficit
1969	-162	-109	+53
1970	-136	-78	+58
1971	-94	-81	+13
1972	-62	-72	-10
1973	-213	-206	+7
1974	-232	-242	-10
1975	-150	-194	-45
1976	-197	-394	-197
1977	-817	-506	+311
1978	-382	-694	-312
1979	-1050	-1446	-396

+ Excludes miscellaneous financing transactions.

The Government's disregard for the taxpayer in the Budget is minor, compared with its disrespect for the economy. If its fiscal policy is designed to compensate for other economic activity, Government measures can buffer the economic against extreme fluctuations.

But rather than using fiscal policy to buffer against large fluctuations in economic activity, this Government's rapid footwork has contributed to the fluctuations. The Government's fiscal stance has swung widely and sharply when a consistent and stable approach to budgetary policy was called for.

In the last two years, for example, the Government's budget stance has had little in common with the Government's actual behaviour.

Speaking about the 1978 Budget last October during the election campaign, the Prime Minister noted that "Government spending has been held back."

At the time, he should have been aware that public servants had received an unbudgeted salary and wage increase (effective from October 1978) which would push Government spending for 1978-79 over $200 million above the budgeted level of $6605 million.

Instead of the budgeted 18 per cent increase in Government spending in 1978-79, the increase is 25 per cent.

This large increase in Government spending last year, accompanied by tax cuts designed to help win the election, are contributing to the large growth now in the money supply.

To repair the damage created by its own measures, the Government is passing restrictive measures such as increased indirect taxes to take back what it gave away last year.

If the Government wants to get New Zealand out of her present economic rut, a longer-term view of economic policy formation and a more organised approach to long and short run problems is essential.

Environment Minister puts up a brave face

by Helen Pickford and Belinda Gillespie

ENVIRONMENT Minister Venn Young is putting a brave face on it, but there are hints that the Kapuni ammonia-urea plant proposals are not proceeding as smoothly as the Government intended.

Young and Environment Commissioner Ian Baumgart are just back from a look at an ammonia-urea plant in Cheyenne, Wyoming. The ammonia plant is "effectively identical" to New Zealand's, though the urea plant is different.

Young claims to be "reassured", environmentally speaking, by the American plant. But in an interview with *NBR*, he made it clear that there were a number of issues yet to be resolved.

Better late than never, an environmental appraisal of the Kapuni scheme by the Commission for the Environment will be made public in the next few days.

The Government by-passed the need for a full environmental impact report by invoking the new Town and Country Planning Act.

This meant that environmental evaluation could become part of the general assessment for projects like Kapuni. The impact on the site is thus assessed through the processing of a clean air licence, the application for a change of use under a district scheme, and the application for water rights.

Baumgart, in a letter to Natural Gas Corporation manager Ronald O'Callahan last September, argued that the Kapuni scheme was one with "high environmental significance." As such, according to a Cabinet decision, it warranted a separate report.

His reasons were:—

- That this would be New Zealand's first petrochemical plant, bound to arouse public interest;
- Although small, it could influence the development of other plants, and initiate a move from low energy intensive farming to systems based on artificial nitrogenous fertilisers, with considerable environmental consequences;
- It would commit a block of natural gas, a valuable indigenous fossil fuel.

"We should be working to ensure that any undesirable impacts of the industry are minimised," and that "the planning, construction and operation are in tune with sound environmental principles," said Baumgart.

Young was evasive on the question of when the crucial financial commitment to the debated plant was made.

The original interdepartmental committee set up to study the development of a petrochemical industry recommended that an environmental impact report should be carried out before an economic decision was made.

In an earlier interview, Young was asked why the Commission for the Environment could not have started a report back in August, when the Government announced it had granted the contract to NGC. He said: "The situation was complicated by the fact that the commissioner was dealing with a situation where a plant had already been purchased."

Young said last week that an "option" was taken out in August, and that the original decision was finalised "some time later".

Young stands by earlier statements that the Kapuni scheme will bring more benefits than costs to the area.

But he admits the need for "more adequate discussion" of the financial aspects, which remain a well-kept secret between Treasury and Petrocorp.

Though it would not allow it to prepare a full report, the Government belatedly let the Commission do an appraisal of the environmental aspects of the Jaamad report, commissioned by the Ministry of Works.

In the appraisal, Baumgart presumably will make public any conclusions he drew from the Wyoming plant — for example, he queried the possible formation of a dense cloud of ammonium carbonate in the advent of ammonia gas combining with carbon dioxide.

Asked whether there would be a problem of corrosive dust from the prill towers of the proposed complex, Young told NBR he had seen no evidence of corrosion in Wyoming, but the Kapuni complex would have to meet the clean-air requirements of the Health Department. The dry Wyoming climate would be less conducive to corrosion than that of Taranaki.

Young admitted that there might be a need for extra equipment to be installed to control air pollution at the plant.

He was "initially surprised" by the large amount of steam emitted from the cooling towers of the Cheyenne plant, but learnt later that this varies according to atmospheric conditions. He was told by representatives of Fish engineering in the party that there would be less steam at Kapuni.

An American scientist, K T Johnson, earlier pointed out in relation to Kapuni that "emissions from the plant cause blue smoke and haze which is visible for miles, and also a dense smog as a result of the combination of ammonia nitrates and condensing steam."

Because of these problems, prill towers were being phased out in the United States in favour of the granulation process. Costs of pollution control had risen tenfold in the United States — from 10.3 million spent on the plants in 1972, to nearly 100 million in 1976.

Young said that the noise close to the plant was higher than he expected. But he argued that the 11-year-old plant had been built before much attention was given to environmental considerations.

The noise, he was told, can be "built out" to some extent, by enclosing the structures which generate it. The aim at Kapuni would be 60-70 decibels at the edge of the plant.

Effluent disposal is another problem. In Wyoming, settling ponds are used for evaporation to reduce the volume of waste.

Highly toxic wastes containing chromates are pumped down to a depth of about 2000 metres to avoid polluting ground waters.

It was clear that the Kapuni planners needed to look more carefully at the question of disposal.

Petrocorp has not yet obtained a water discharge right, even though the Cabinet Economic Committee was told in March that undue delay in this could be a stumbling block in the whole project.

Water is becoming a precious commodity in the Kapuni area, where major industries already use water for their operations.

An application for water use in the ammonia process from one of the streams by NGC brought objections including one from the Waimate West County and one from the Ministry of Agriculture and Fisheries.

Water discharge rights are likely to be even more sensitive.

Some spillage of urea on the site is inevitable. This will need to be contained at Kapuni, where it could have a burning off effect on the pasture.

Young admitted that there will be some unavoidable leakage of ammonia — unpleasant in small quantities, and a health hazard in large amounts. But this would be less in the new Kapuni plant than in Wyoming.

The Auckland Regional Authority has been asked to look at the environmental implications of siting an ammonia-urea plant in the Auckland area, according to reliable Government sources.

Venn Young denied any knowledge of the proposal which suggests that the Government is having second thoughts about the Kapuni site.

The Waimate West County Council has called a public meeting for Thursday, May 31, to which representatives from the Commission for the Environment, and Ministry of Works have been invited along with Cabinet Ministers Young, Birch and Duncan MacIntyre.

The proposed changes to the Waimate West District scheme are open for objection until June 15.

The Commission for the Environment, among others, has made a number of objections.

The meeting on Thursday will be a timely, if belated, chance for the public to learn something of the rationale behind the approximately [illegible] million investment made on its behalf, with scant attention given to long-term environmental, agricultural and economic considerations.

Ammonia-urea: the $64 million question

Special Correspondent

THE Government's actions over environmental considerations for the multi-million dollar ammonia-urea complex at Kapuni raise a number of questions.

For example, just when did the Government commit public money into what critics claim is the white elephant of the century?

The story begins back in 1976, when a special interdepartmental committee released a study on the development of a petrochemical industry in New Zealand.

The committee placed certain criteria for the setting up of such an industry:

- Access to Maui gas;
- Access to plentiful supply of water;
- Close proximity to road, rail and port facilities;
- Availability of industrial land served by an established infrastructure;
- Minimal effect on the environment.

The study pointed out that because the complex would be treating highly toxic and flammable materials, it would be prudent to acquire 100 to 150 hectares of land of low agricultural potential.

This report was sent to numerous private companies in November, 1976, along with an accompanying letter from the Department of Trade and Industry.

The letter asked the companies to submit proposals in full detail — such as marketing proposals — for consideration by mid-July, 1977.

A somewhat long silence followed. But during that time Petrocorp was formally constituted.

Under the chairmanship of General Foods manager and accounting firm partner of Orr and Orr, Frank Orr, the board comprises:

- A former chairman of the Maui development company and offshore mining company, barrister and solicitor Peter Hillyer, QC;
- The deputy chairman of Air New Zealand's board Cyril Keppel;
- And the general manager and chief executive of the Bank of New Zealand, Bruce Smith.
- Plus three Government appointees — the group's general manager and chief executive Jim Hogg, Treasury secretary Neil Lough, and secretary, Ministry of Energy, Bill Duncan.

At the same time, the Government engaged the American consultant firm, James Chemical Engineering, to study the proposals. The resultant report and a special one to Cabinet has never been released to the public.

But, parts of the JCE study have found their way to the media. They show the firm stating that at no stage did it consider environmental aspects of the petro-chemical issue and its describing the site as of marginal land value.

In August, the Government announced it had invited the newly set up Petrocorp to undertake the building of an ammonia-urea complex with its subsidiary, the Natural Gas Corporation, in charge of the siting and operation of the plant at Kapuni.

The news came as a shock in some circles, especially when the decision was studied alongside the 1970 petrochemical committee's report.

The sites selected by this committee did not include Kapuni. They were Whatawhata and Otorohanga, in the Waikato, Bell Block, Omata, Okato and Oaonui, in Taranaki, and tentatively Wanganui, which was later ruled out on the basis of extra cost.

In November, the Commission for the Environment announced it would not be carrying out a full environmental impact report into the proposals but assessments studies instead.

Ministers Venn Young and Bill Birch fully back the Government's decision, taking shelter behind the Town and Country Act and the Jasmad study of the proposal. But Jasmad officials themselves point out there are several areas that need further investigation.

Birch considers the reason to site the complex at Kapuni, and the granting of the contract to the NGC to be matters of the past.

Venn Young (left) and Bill Birch...take shelter.

"It's all history," he says. "If I went back and looked at all past decisions I wouldn't have time to think."

He considers the private companies have been given a fair deal, even though the Government decision to site the plant at Kapuni meets only one of the criteria . . . access to Maui gas which will be piped to the site some 72 kilometres away from New Plymouth.

Nor does Birch consider that after changing the criteria for setting up a complex, the Government should re-open the issue and call for further proposals from the private sector.

"You don't stop in mid-stream and go back and start again just because a new Act has been passed," he insists.

That raises the question: had the plant already been bought by NGC?

Last November, criticism of the Kapuni proposals were published and at least one major international firm, BP (NZ) Ltd, told the Government it was concerned at the decision.

Private industry sources criticised the proposals. They alleged that:

- The plant would cost at least $12 million more than the estimated $60 million (the officially announced price in February this year was $61 million).
- It would use 50 per cent more gas;
- It was built to an 11-year-old design and therefore was obsolete in the light of recent technological developments;
- The price of the end product — urea fertiliser — would be $50 a tonne more at the gate than the present world market price of $220 a tonne.

At that time, NGC's Ronald O'Callahan and a Treasury official were in Houston on what was officially described as a shopping expedition.

Departmental sources say they were in the United States to sign and seal the package deal of Capital Plant International Ltd, but were immediately recalled home.

On his return, O'Callahan denied the private industrial claims.

But since that time has admitted that freight of the finished product from Kapuni will have to be subsidised to make it competitive on the home market.

His company "may have been a little optimistic" with its claim that it would save the country $20 million in overseas funds (the total amount of the fertiliser imported last year was just over $9 million), and more research will be needed into the overseas marketing of the product from the plant which will be producing four times as much as the country's present needs.

But, the $64 million question for the New Zealand tax-payer is just how much will the setting up of this complex ultimately cost the country?

NEXT WEEK: Plant reports predict Taranaki boom — Helen Pickford says there is no evidence.

Throwing ourselves to Lion at feeding time

by Belinda Gillespie

NEW ZEALANDERS are throwing themselves to the lions — and loving it.

Lion's 14th Cobb and Co restaurant opened in Lower Hutt last month.

Lion Breweries chief executive John MacFarlane, took the opportunity, as he usually does, to make some comments on the sociological aspects of liquor drinking.

The new restaurant, said MacFarlane, was the latest addition to New Zealand's fastest growing chain.

Cobb and Co premises are designed for eating, and do not encourage "stand-around drinking".

"They are places where people can dine inexpensively with their young families. Those who don't want to eat can go in for a drink in a "controlled atmosphere".

At a time when other fast food chains are "consolidating" — which is a polite way of saying that profits are lower, costs are higher, and it's a bad time to open new restaurants — Lion marches on.

It has certain gilt-edged advantages over other restaurant chains. Backed by the millions of the liquor industry, with key locations in every main city and town in New Zealand and no licence hassles, with Cobb and Co Lion can hardly put a paw wrong.

Other fast feeders have to contend with each other, and with escalating land values, when they bid for the prime, town-centre sites.

The lucrative food segment is but one of many components in the liquor-marketing mix. Lion therefore has a flexibility which others in the food game must envy.

As part of a business with staff training facilities, market research, architects, entertainment and capital all on tap, Cobb and Co's are a profitable way of exploiting the assets of the Lion empire. But if the fickle public gets bored with hamburgers or turns off pizzas, or if chickens double in price, Lion won't get its tail in a knot.

The enterprise is of a size and complexity which makes it invulnerable to market changes which could be a death blow to those with less flexibility.

Like it or not, Lion Breweries has hit the spot with Cobb and Co concept. It has tapped into a market which previously didn't exist and created a demand for a product which didn't used to be there.

MARKETPLACE

Ten, 20, 30 years ago, drinking wore a blacker hat and it wasn't mixed with children. The "young families" referred to by MacFarlane didn't dine out together.

When Mum and Dad ate out, they made a night of it with a baby-sitter to hold the fort while they put on their gladrags and went to the best restaurant they could afford. The cost was astronomical, and there was a lot of break-down later as to what could have been produced on the home front at a quarter the price, and better cooked at that.

Referred to as the "growth sector" in the American fast-food industry, the low-priced licensed restaurant geared to the family with children aims provide a sense of occasion at a reasonable price.

The peculiarities of the New Zealand licensing laws work against any but expensive restaurants getting full liquor licences, though modifications such as wine licences and BYO's are proliferating.

The law in this case has worked in Lion's favour, enabling it to produce a cheap, licensed package which no-one else in the fast-food world can emulate.

The New Zealand palate, educated in the land of the bland, will not be offended by the Cobb and Co menu, which is a conglomerate of most of the fast-food possibilities. American hamburgers, Italian style pizza, and fried chicken, with plenty of Lion brown or red and white wine to get it down the hatch.

Foods traditional to the Greasy Spoons, where earlier generations cut their teeth on T-bone steaks after 6 p.m. closing, are also featured. Steak, chops, fried fish and eggs, onions and chips are there for those who are not yet ready for innovations such as double-decker turkey sandwiches.

There's a salad for slimmers, or if your heart belongs to mother, try some ersatz home-made food like an "old-fashioned" pot pie. There is even a token gesture — pate, tossed salad — for snobs who would have gone to a French restaurant if they could have afforded it.

Something for everybody but enough for nobody? Whether you think it epitomises the best or worst of fast-food land, the formula must have worked, or Lion wouldn't have opened its 14th restaurant.

The Lion's prey is not the family for whom plastic food means fun.

What about the drinking? Those in the liquor trade would have us believe that the trends towards more intimate surroundings, food and entertainment, instead of unadorned booze, are all done for our own good. Out of sheer benevolence the industry is trying to turn crass Kiwis into sophisticated, discriminating drinkers, all at its own expense.

In his opening speeches, MacFarlane doesn't highlight the fact that Lion has discovered an enormous market out there, drinkers who would never have been lured into the old-style pub, but who are susceptible to the inducements of the new.

This year's downturn in consumption aside, it's all part of a trend to more people drinking more alcohol more often, a trend enthusiastically endorsed by the liquor industry.

The dark side of all this is that the higher the average level of liquor consumption, the more alcoholics there are. The hazards of alcohol — physical, social, psychological — are related to the volume of intake.

The Alcoholic Liquor Advisory Council's [illegible] young people and [illegible] shows that children learn to drink from their parents and their peers.

The heart of Lion's mix is the early exposure of children to routine drinking with meals, which imprint them with the idea that alcohol is a "fun" [illegible] on a par with the thick shakes they are consuming at the same table.

It can hardly be in accord with the "preventive" approach to create "A greater awareness of the implications of alcohol misuse" and to promote "concepts of moderation in the use of alcohol".

How to teach the hazards of alcohol in the face of ever improving presentation by producers is a paradox ALAC has still to resolve.

JOHN MACFARLANE controlled atmosphere.

NBR BUSINESS WEEK

State pushes 'new' income into export drive

by Peter V O'Brien

THE Government's decision to impose sales tax on a wide range of consumer goods drew the usual fire from people involved in producing or selling items in the list. But the decision has a logic about it, apart from the shambles which developed over homebuilt boats. Some faceless public servant has taken the kick for giving that advice and the problem is now straightened out. (Interesting how the officials get kicked for advice when public noise is loud enough, and get defended when the advice is obscured in that salvation of bureaucracy — the interdepartmental committee. But the officials and those who sustain the myth of Ministerial responsibility, claim regularly that officials do not make policy — a fallacy in the complexities of a modern state.)

The logic in the sales tax moves is the attempt to shift resources from consumption to production, particularly for export, and to cover the Government's deficit. The latter came out at $1466 million in the year to March (see analysis Page 7). The timing of the taxes was a surprise, suggesting that the Government has similar moves in mind on other goods.

Legislation regarding sales tax allows the Government to introduce a tax by regulation on goods which were previously exempt. Changes to rates on goods already taxed requires an amending act. Amendments are usually made with the Budget. A bill is introduced before the Budget statement is read, and passed with urgency in the same night.

The main candidates this year (and amendments could be introduced before the Budget, because Parliament is now sitting) are liquor and tobacco. There was a story doing the rounds in Wellington last week that liquor taxes and duties were to be increased at that time. But the Budget is the "logical" place to announce changes, which take effect the next day. Immediate legislation is essential, or the pubs will run dry in the period between announcement and legislation.

If the Government has plans to tax alcohol and tobacco at a higher rate the move will be a revenue raiser, with the effect on consumption only a minor element. People will still drink beer, irrespective of the price, as shown in the steadily increasing per capita intake in spite of higher wholesale and retail prices in recent years. Higher taxes might have an impact on spending in other areas, due to the effect on overall discretionary spending power, but a rise in revenue to cut the margin between Government income and expenditure would be the principal object.

Given the growing social disfavour of smoking, a higher tax on tobacco would probably create less fuss than in other days. The liquor situation is different, but passions are quickly dissipated, when the next election is 30 months away.

If the Government decides to alter taxes on alcohol, it should take the opportunity to remove the anomaly in New Zealand made wine.

Tax is levied on wine at the final production stage, including the bottle, cork, label, and wrapping around the cork. The wine bears only a proportion of the total tax, but the buyer is paying taxes on corks, bottles and so on. Beer is taxed on the liquid alone, and the winemaker (using products of the New Zealand soil, and presumably a "worthwhile" industry) is operating at a disadvantage. That probably suits the brewers, with greater political clout than the wine industry, but they are now increasingly involved in winemaking, so the anomaly eventually affects their total operations.

Fancy can run away when considering other potential areas for indirect taxes, in conjunction with the Budget, but attempts to anticipate Budget statements are fruitless exercises. You win some and you lose some, as seen in the daily press' pre-Budget analyses every year.

A combination of higher electricity prices, a partial removal of the milk and rail subsidies, new sales taxes, possible changes to existing rates on other goods, and sundry moves will help to hold Government expenditure. The main areas to be tackled are still the central core of spending, particularly in the general "welfare" group — education, health, and social services. The counter argument is that these are "essentials", but the public cannot have it both ways. Either expenditure goes down (or is held) or revenue has to increase. The only alternative is continuing high deficits with their inevitable impact on inflation, the balance of payments and credit expansion.

Revenue rates were cut last year, and there will be a levelling out of income tax receipts as the migration outflow increases. If 24,000 or so fewer income earners are in New Zealand, the taxes on their gross incomes are not received by the Government. While some of those people might have been unemployed if they had remained here, the balance would pay taxes.

The Government is trying to move resources into export production, so at least part of the "new" income from recent fiscal moves will be used in the export field. The revamped export incentive scheme should get an airing in the Budget, and the agricultural industries are likely to share in new programmes.

The tourist industry will be among those looking for a boost. The Tourism Advisory Council sent Tourism Minister Warren Cooper a booklet of recommendations late last year, and is waiting for action across the total range of the industry.

The community still faces the problem of piecemeal policy changes, which are unrelated to a broad strategy, for the obvious reason that there is, by Government admission, no broad strategy. The Budget will have considerable rhetoric on "restructuring", but in the absence of any clearly defined goals it will be meaningless. The administrative cooks are somewhat like the chef in the Muppet Show. When tackling a chocolate mousse, their solution is to take some chocolate and plaster it on the moose. Nice for the moose, but hardly a recipe.

Exchange rates

As at 24 May 1979 $1NZ is worth:

Australia	.9411
Britain	.5055
Canada	1.1995
Fiji	.8700
Japan	225.34
West Germany	1.9741
USA	1.0876
Austria	14.58
Belgium	31.80
China	1.8280
Denmark	5.6157
France	4.5807
Greece	38.28
Hong Kong	5.2218
India	8.4825
Italy	884.42
Malaysia	2.2678
Netherlands	2.1562
New Caledonia & Tahiti	83.41
Norway	5.3694
Pakistan	10.18
Papua-New Guinea	on application
Portugal	51.46
Singapore	2.2764
South Africa	.8706
Spain	68.11
Sri Lanka	on application
Sweden	4.5271
Switzerland	1.7882
Western Samoa	.7624

Selling rates supplied by CBA Bank

Analysing annual accounts

by Peter V O'Brien

HODDER & Tolley Ltd, is a relative newcomer to the Stock Exchange, having been listed in 1977. But the Palmerston North based grain and seeds merchant and farm supplier has been in business for a long time (the 1979 report is titled the 74th), so its annual report can be judged fairly by the standards of long-established public companies.

The report is reasonable, but has several flaws which put it in the second rank, rather than among the best examples of company disclosure. That comment is made after allowance for the group's size, and the cost of presenting a swept-up report in relation to the total investment.

It has been said here many times that a company can produce a high class report by observing a few simple guidelines which will enable shareholders and other readers to understand what went on in the business during the year under review.

The first is disclosure of turnover, or, at the very least, a comment on the increase or decrease in sales, related to both dollar value and to volume. Hodder and Tolley says nothing about the group's total revenue, and makes only two brief comments regarding sections of the business.

Speaking of the real estate division, managing director R A Eaton says that the division "made marked progress last year with greatly increased sales. This reflects directly on the calibre and stability of our sales team in this division and it is pleasing to be able to comment further that this increase is continuing into the current year".

The statement is unfortunately brief, and for that reason it is even more intriguing. "Greatly increased sales" in a real estate operation under the conditions prevailing in 1978 is a notable achievement. But what was the increase, even as a percentage? What was the base from which the increase was struck? Is the company eating into its competitors' business through "the calibre and stability of the sales team"?

With reference to the company's main business of grain dealing, Eaton says (in relation to barley): "Yields from the 1978 harvest were excellent, leaving a surplus in merchants' hands which was hard to sell and which dropped in value. Unfortunately it was not saleable overseas at any realistic price. We had our share of this surplus and whilst it is now safely marketed, the fall in value and the costs of financing and storing did adversely affect the accounts under review." Again we have no figures, no base, no statement of increased or decreased revenue (possibly the latter when taken in volume terms).

Secondly, the company gives no statement of expenses. Since profit fell in comparison with the previous year, readers are left to wonder whether costs increased faster than revenue, whether revenue was down, or if the company was successful in holding cost increases below the level reached across the economy.

These matters affect understanding of a company's business. Their omission suggests that Hodder and Tolley either considers them irrelevant in a report, or the company suffers from a conservatism on disclosure which is out of place today, or the competitors will gain advantage from the knowledge.

While Hodder and Tolley is not a stock and station company in the usual definition of that term, its business covers a wide area of agriculture, and brings it into competition with the stock and station companies. Other groups find no problem in releasing the brief information referred to earlier, so there is little excuse for reliance on "competition" as a reason for lack of disclosure.

There are no comments on the balance sheet, and readers are left to make their own conclusions. Why is stock value up 22.5 per cent? Does the change reflect the position in grain with goods left in merchants' hands? Does it have a relationship to generally higher prices for a wide range of goods, or to an increased level of trading which would necessitate holding a higher volume of inventory? Creditors moved from $1.2 million in 1978 to $1.7 million at January 31, 1979, a 40.5 per cent movement. Why? The bank's investment went from $871,718 to $1,157,703, a jump of 32.8 per cent. Why? Was it necessary to finance the higher stock figure, a $498,000 lift in debtors, or a combination of the two? The fact that the ratio of current assets to current liabilities is constant at 2.0 is irrelevant in this context, particularly where stocks are concerned. Failure to move the stock while debtors, creditors and overdraft increase may give a theoretical lift to "liquidity", but in the absence of explanations it can also indicate a rapidly tightening trading position, which will eventually affect cash flow.

The report has several good features, not least of which is the easy-to-read layout. A five year table, plus the statement of source and application of funds, provide the general comparative information and funding data which are needed for historical reference. In this respect Hodder and Tolley does better than several large companies.

The balance sheet also discloses financial strength, with a 62.4 per cent proprietorship ratio, only marginally lower than the previous year's 64.8 per cent. The profit decline brought the return on shareholders funds down to 14.9 per cent compared with the 18.4 per cent recorded in 1978, and 11.1 per cent in the previous year. That is a reasonable return for a company which has much of its business in fluctuating commodity markets.

Cash flow (net profit plus depreciation) was 11 per cent of total assets, as against 13.1 per cent in 1978. Both figures represent a good relationship to the investment, and show that the group is better equipped than most to run its activities on a financially sound basis. But the report would improve markedly with only a few additional pieces of information.

Mussel farmers battle for sea space rights

by Peter Isaac

A TENSE battle for possession of the sea is being fought in the Marlborough Sounds where local authorities have banded together to try to curb mussel farming.

Applicants for mussel farms in the sounds are receiving automatic objections from the Marlborough Sounds Maritime Park Board, the Marlborough Harbour Board, and the Marlborough County Council.

Mussels are imported into New Zealand from Spain, Norway, Japan, Italy, and Indonesia.

The absence of large-scale production in New Zealand has meant that from a price point of view, mussels have become a greater delicacy than oysters.

More important, the local production shortfall has meant that mussels have rarely been exported — the demand on the home market is too great to make it worthwhile and New Zealand mussels have become too expensive for the export market because of haphazard production methods.

The Marlborough Sounds Maritime Park Board has designated areas available but sees the sounds mainly as an entertainment area.

The board regards the mussel farms, according to one of its official objections, as posing "a deterrent and hazard to recreational activities".

But the mussel farms, in effect, are only lengths of rope suspended from plastic buoys — generally the only visible part of the farm.

The Marlborough County appears to believe that it should be the only authority dealing with the mussel farmers.

The Marlborough Harbour Board also lays claim to being the authority for the area.

The Maritime Park Board claims to be the authority, from the environmental aspect, seeing the farms as "visually detrimental to the environment."

The park board carries substantial weight on environmental grounds because it is not merely looking after the environmental interests of forest or wildlife protection groups, but is looking after the interests of the well-to-do who can afford boats and houses in the area.

In the previous two months the industry appears to have earned around $50,000 in foreign currency — a tiny fraction of the real potential.

Additions take up some building trade slack

by Peter V O'Brien

THE Department of Statistics building statistics for the year ended February, 1979 illustrate trends in the economy, apart from the obvious fact that permits issued for, and completion of, new dwellings are well down on previous years.

A net migration outflow, a high "stock" of existing housing, and possibly the rise in interest rates, combined to lower the number of dwelling units completed from 25,400 in the 1978 February year to 19,390. Everyone knows that situation caused problems for the building industry, and is probably a major reason for the movement of skilled tradesmen to Australia and other places. It is also a factor in the gap between registered unemployed in trades associated with the building industry and the vacancies notified to the Department of Labour.

According to the department's latest statistics of unemployed, there were 351 registered unemployed among carpenters, electricians and "other building trades" at February, 98 placements, and 176 notified vacancies.

There was a move towards additions and alterations to existing dwellings in 1978-79. The department provides only the number and value of permits issued for this type of work, so the figures have to be treated cautiously, because some work may not take place.

There were 19,168 permits issued for all new building units in the year, with a total value of $497.8 million. In the year to February 1978 the corresponding figures were 22,110 and $517.1 million.

The reverse situation occurred in additions and alterations. Permits totalled 48,922 (1978, 44,534) valued at $138 million ($116.4 million). That is a growth factor of about 10 per cent by number, and 16.6 per cent by value. The higher value probably relates to increasing costs, plus some degree of greater complexity in additions and alterations as the trend to upgrade existing dwellings (particularly in the main cities) gains momentum.

The industry has come some way since the days when the boom was in full swing, and builders turned down alteration work in favour of new dwellings. The former can be messy, in the sense that the builder lacks a "clean" site where he starts from scratch. In addition, the switch to metric measurements from the imperial system has an effect on material usage in alterations to houses built under the former system (as anyone who has engaged in alterations knows to their cost — what do you do with the bits left over?).

The growth in alteration work has taken up part of the slack in the industry, after allowance for skilled emigration and those firms which have gone out of business in the recession. A problem will arise if the country ever gets back to economic and population growth. The possibility of a sudden rise in demand will need watching, because skilled labour shortages and the lower level of production in the building supplies' industries could cause bottlenecks.

The "other building" section of the statistics confirms a reduction in industrial capital investment. Permits, and values, for factories and warehouses show a decline over the previous year, in line with under utilised capacity in industry. There were 990 permits issued for "factories, powerhouses etc." in 1978-79, compared with 1079 in the previous year. The value of those permits was $65.4 million, as against $72.8 million in the previous year, but the figures disguise a statistical trap in the absence of a detailed breakdown.

One factory in a given year may be worth, say, $10 million, while 10 factories in the following year may each have a value of $1 million. Therefore the relation between number and value can be misleading. (This point shows up in the latest figures for "hospitals, nursing homes etc," where there was an increase in the number of permits from 26 to 36, but a decrease in value from $35.1 million to $15.8 million.)

Industry also planned fewer warehouses last year. There were 419 permits in this classification, compared with 522 in 1977-78. The value fell from $44.9 million to $37.9 million.

The changes can be read in conjunction with the Institute of Economic Research's quarterly surveys of business opinion. During last year the results of the survey showed regularly that industry was planning a low level of capital expenditure, apart from replacing or improving existing facilities. The position changed a little towards the end of the year under review, following economic expansion which occurred in 1978, particularly in the latter half of the year.

But the statistics fail to tell the full story of the housebuilding and construction industries. No set of global figures can give the state of individual units in an industry. Some construction firms have maintained their order books, even in the face of rising costs. The latter affect the true return from tenders which increased in "value" under inflationary pressures. Other companies either liquidated, or are operating at a much lower level of output than a few years ago.

The department's statistics in the coming months will show the effects of several large projects approved in the hotel industry, particularly those catering for tourist and executive travellers in the major cities. The developments will influence the value of permits, although they may have only a small effect on the number issued.

If the Government decides to take up some of the recommendations of the Tourist Advisory Council in the Budget additional work could develop in the hotel and motel categories.

Food chain gives shareholders years of red carpet treatment

by Peter V O'Brien

INVESTORS in Progressive Enterprises, the Auckland proprietors of Foodtown supermarkets, have no worries about equity investment keeping ahead of inflation.

The company's record has been extraordinary since listing on the Stock Exchange at the end of 1971. At almost any time in the intervening seven and three quarter years a buyer could have taken a position in the company and now be showing handsome capital gains. The announcement of the 1978-79 profit included another bonus issue for shareholders, the fifth since listing, and also the fifth since 1974. There was a cash issue in 1973, which also shows a solid gain, and an issue of specified preference shares in August 1977 at par, now selling in the region of $4.60 a share.

This year, Progressive reported a 21.6 per cent increase in sales, while total retail sales, in dollar terms, were only 15.6 per cent ahead of the previous year. Net profit increased 19.8 per cent, after absorbing a loss in the Georgie Pie quickfood division.

Progressive's treatment of shareholders has been spectacular. The company had its one for five cash issue at a premium of 50 cents ($1.50 in total) in 1973, then produced bonuses of one for five (1974), one for four (1975), one for five (1977), one for four (1978) and now one for five. The specified preference shares participate by altering the conversion ratios, thus pushing those shares towards the $1.00 level.

The capital issues have kept shareholders well ahead of inflation. A subscriber to the public issue in 1971, at a total price of $1.35 for the $1 shares, now shows a compound capital growth rate of 24 per cent a year each year. That figure is based on the price of $3.75 last week, cum bonus. When the shares go ex bonus, and react back towards the cum issue price, there will be a further gain. The calculation also ignores the specified preference share issue, which is showing a gain of 360 per cent over the issue price of $1 (excluding people who bought rights on the market) in less than two years.

The dividend rate has gone from 10 per cent (1972-77) to 11.5 per cent, payable on higher capital, so an original investor in 100 shares has received back $135.22 in dividend payments since 1972 for a total outlay on ordinary shares of $165. The dividends on specified preference shares are additional to that figure.

If it is thought that a seven and three quarter years holding period is unrealistic, other examples from later periods also show solid gains. The first is a specific example of a small investor who bought Progressive in January, 1978, when the price was $2.65. The investor wanted a selection of stocks which would not be sold for about three years. Based on 100 shares (a larger parcel was actually purchased) the cost was $271.50 for each multiple of 100.

Those shares are now worth $468.75 cum bonus for each 100 on last week's price of $3.75.

INVESTOR INSIGHT

The gain in 16 months is $203.75, or 76.88 per cent. The compound rate of annual increase is 66 per cent.

The second example is the movement this year. Progressive was selling at $3.30 in January. The gain in four months is therefore 13.6 per cent. Other companies have shown similar increases this year, but very few can perform year after year with Progressive's consistency.

The obvious question is when does the company run out of steam, given the highly competitive business of food retailing in the Greater Auckland area? Assuming that present proved policies and controls are continued, there seems to be at least three years of further growth. Somewhere in the future, supermarket outlets in Auckland must come close to saturation point, while the drive for continuing efficiency and economies moves toward its limit. At that stage the group may have to decide on a regional shift. The present policy is to stay in Auckland. Population growth (admittedly smaller than in the past), plus the availability of new areas and scope for higher turnover volume terms in existing outlets, should ensure continuing medium growth under present management and present operating policies.

Food retailers are always open to the charge that they benefit from higher prices, but, as seen earlier, Progressive's dollar sales increases are regularly ahead of the movement in food prices. Strict control of overheads keeps net profit on sales close to, or slightly above, the 2 per cent level. That is a minimal margin. The effect of profit on sales can be seen in a theoretical example. If the company were to discount its prices 2 per cent for a year it would break even, but such a policy would have little effect on the public's costs for food and the other goods in the stores.

When a company earns just under $2.5 million on $100 million of sales in the supermarket business the relationship between turnover and profit comes into perspective. But Progressive is doing better than competitors in this field, and has shown rapid physical growth at the same time. The secret is both complex and simple. The simple part is that the company knows what it is doing, does it well, and is not sidetracked into other activities or geographical areas. The complexity is the dedication to efficiency and ready adoption of the latest overseas techniques, particularly those in the United States, where the supermarket business is under pressure.

Two key problems face American supermarkets.

First is the increasing number of women at work. They have less time to shop, and the supermarkets are adding to non-food lines to boost sales through "one-stop" shopping.

Secondly, there is a growing trend to "eating out". More money is being spent in restaurants and fast-food outlets, cutting into the amounts spent on food eaten at home. Consequently, the small margin on food items is forcing United States supermarkets to carry other high margin lines, which in turn lowers stock turnover, and increases holding costs.

Developments which happened in the United States yesterday will happen here tomorrow. The trick is to keep ahead of the developments, and plan accordingly. That is one of Progressive's secrets, but like all tricks it requires expertise and constant planning. Both abilities can be seen in the Foodtown operation.

Key indicators

		Current Period	Previous Year	PC Change
Consumers Price Index-all groups base Dec 1977 equals 1000	March 79	1120	1020	+10.00
Building Permits Issued	Feb 79	$94.7m	$81.1m	+16.00
	Feb 79 yr	$1,120.1m	$1,100.7m	+1.0
Official Overseas Reserves	March 79	$815.0m	$985.6m	-17.00
Registered Unemployed — incl those on special work schemes	April 79	51,753	35,068	+45.00
NZUO Share Price Index	24 May 79	337.98	327.61	
Reserve Bank Share Price Index	23 May 79	1394	1365	+2.0

ECONOMIC INDICATORS

EXTERNAL TRADE

As recorded in Raserve Bank record of Ovarseas Exchange Transactions.

	Period	Latest	Previous Year	% Change
Exports				
Meat	Mar 79	$104.7m	$91.5m	14.0
	Mar 79 yr	$1090.9m	$903.2m	21.0
Wool	Mar 79	$86.3m	$71.5m	21.0
	Mar 79 yr	$701.6m	$612.3m	15.0
Dairy Products	Mar 79	$58.9m	$74.7m	-21.0
	Mar 79 yr	$586.1m	$616.8m	-5.0
Forest	Mer 79	$28.8m	$28.3m	2.0
	Mar 79 yr	$292.9m	$291.2m	1.0
Manufactured	Mer 79	$74.7m	$38.7m	93.0
	Mer 79 yr	$613.5m	$501.0m	22.0
Total Exports	Mar 79	$410.2m	$349.3m	17.0
	Mer 79 yr	$3849.9m	$3395.1m	13.0
Imports				
Government	Mar 79	$27.2m	$28.1m	-3.0
	Mar 79 yr	$188.8m	$166.9m	13.0
Privata	Mar 79	$263.6m	$217.9m	21.0
	Mar 79 yr	$3001.0m	$2900.5m	3.0
Total Imports	Mar 79	$290.7m	$246.0m	18.0
	Mar 79 yr	$3189.8m	$3067.5m	4.0
Balance on Trade Transections	Mar 79	+$119.4m	+$103.3m	16.0
	Mar 79 yr	+$660.1m	+$327.7m	101.0
Balanca on Invisibles	Mer 79	-$81.4m	-$63.2m	29.0
	Mar 79 yr	-$1086.5m	-$837.2m	30.0
Official Overseas Resarves	Mar 79 yr	$812.0m	$983.6m	-17.0

FREIGHT MOVEMENTS

Shipping Cargo carried	Jan 79	3172	2597	22.0
—000 tonnes	Jan 79 yr	32936	35714	-8.0
Raif Freight Carriad	Feb 79	950	985	-4.0
— 000 tonnas	Fab 79 yr	11666	12932	-10.0

FINANCIAL

Raserve Bank Advances	31 Jan 79	$686.1m	$789.2m	-13.0
Trading Bank Advances	14 Mar 79	$3205.4m	$2567.5m	+25.0
N.Z. Overseas Transactions — balance on all transactions	Jan 79	+$213.7m	+$970m	-
Rastricted Survey of Hira Purchasa	Dec 78 qtr	$140.2m	$124.4m	12.5
— value of goods sold	Dec 78 yr	$530.7m	$449.0m	18.2
Mortgage Intarest Rates — avaraga	Jan 79	10.79	10.50	3.0
Govt short-term securitias — avaraga yield	Jan 79	10.55	8.54	24.0
Govt long-term securities — avaraga yield	Feb 79	10.05	9.98	1.0
Land transfers (value of land sold)	Dec 78	$240.2m	$203.1m	18.0
	Dec 78 yr	$3285.6m	$2791.5m	18.0
Mortgages registered (value)	Dac 78	$178.3m	$168.2m	6.0
	Dec 78 yr	$2043.5m	$1908.3m	7.0
Mortgages discharged (value)	May 78	$187.5m	$69.8m	25.4
	May 78 yr	$998.8m	$906.64	10.2
Bankruptcies (number)	Feb 79	36	62	-42.0
	Fab 79 yr	500	431	16.0
Sales tax collected (valua)	Fab 79	$40.3m	$34.3m	17.0
	Feb 79 yr	$335.5m	$365.9m	-8.0
Totalisator turnover (valua)	Feb 79 yr	$ $36.4m	$31.1m	17.0
	Feb 79 yr	$463.3m	$386.4m	20.0

LABOUR FORCE

Industrial stoppages (working days lost)	Dec 78 qtr	54,246	162,598	-67.0
	Dec 78 yr	380,251	437,694	-13.0
Normal waakly waga ratas index	Dec 78	1114	1000	11.4
Effectiva weekly waga ratas Index (Basa 1977-1000)	Dec 78 yr	1012	1000	10.1
Vacancies at month end	Jan 79	1892	1375	37.6
Unemploymant at month end	Feb 79	24,137	18,654	29.0
People on special work schame at month end	Fab 79	26,424	9347	183.0
Migration	Feb 79	424	1392	-70.0
	Dec 78 yr	-22,307	-13,727	63.0
Total New Zaaland population	Dec 78 yr	3,151,400	3,151,900	-0.01
Births	Dec 78 yr	50,940	54,179	-6.0
Deaths	Dec 78 yr	24,668	25,961	-5.0

PRODUCTION

Electricity ganaration	Feb 79	1448	1438	1.0
— Million kWh	Feb 79 yr	21756	21583	15.0
Coal production	Jan 79	104.9	90.0	17.00
— 000 tonnas	Jen 79 yr	2108.8	2242.2	6.0
Gas production	Jan 79	2970.9	5782.4	-48.1
— million megajoules	Jen 79 yr	57384.3	61301.3	-6.0
Motor spirit — petroleum prod.	Dec 78	128916	157210	-18.0
— million litres	Dec 78 yr	1701611	1744078	-2.4
Motor vehicles assembly	Jen 79	2060	1126	82.9
(no. of vehicles)	Jan 79 yr	50176	62865	-20.2
Building work put in place	Sept. 78 ql	305.6	348.5	12.3
(value)	Sept. 78 yr	140.9	1349.9	-15.5
Talavision sets	Dec 78 qtr	25,219	23,208	8.7
(units)	Dec 78 yr	89,986	119,086	-24.4
All plastic products	Sept 78 qtr	69.3	69.3	0
	Sept 78 yr	244.9	254.6	-3.8

INTERNAL TRADE

Consumar prica indax (base 1977 1000)	Mar 79 qtr	1126	1020	10.00
Rotail trade — total turnover	Jan 79	$450.13m	$380.4m	18.0
— Currant prices	Jan 79 yr	$5706.9m	$5124.8m	11.00
Total turnover	Dec 78 qlr	$843.03m	$786.93m	7.0
— 1974 prices	Dec 78 yr	$3263.57m	$3224.59m	1.0
Per head	Dec 78 qtr	$533.86m	$459.7m	16.0
— current prices	Dec 78 yr	$1798.6m	$1626.7m	11.0
Per head	Dec 78 qtr	$269.17m	$281.7m	-4.0
— 1974 prices	Dec 78 yr	$1056.5m	$1020.0m	4.0
Wholesale treda total turnover	Dec 78 qlr	$1621.6m	$1381.7m	17.0
— current prices	Dec 78 yr	$5827.8	$5428.9m	7.0
Stocks — Manufacturers	Dec 78 qtr	$2079.2m	$2068.5m	1.0
— Wholesalera	Dec 78 qtr	$903.5m	$964.4m	-6.0
— Retailers	Dec 78 qtr	$920.9m	$869.5m	

Economic News

Building permits

FIGURES released on May 23 by tha Statistics Department, show an Increase in both number and value of building parmits for new and dwallings and other buildings over the 1978 figure.

New dwellings	Feb 1979	Feb 1978
Numbar	1335	1305
Value	$37.2m	$32.4m

This meant a 2.3 per cant Increase in the number of dwellings but a 14.8 per cent increase in value.

New othar buildings	Fab 1979	Feb 1978
Number	783	616
Value	$31.1m	$17.4m

External Migration [Provisional]
The net migration loss to population, for the year ending April 1979 was 31,704, a 47 per cent increase over the April 1978 figure of 21,577.
The monthly figure of 19,770 for April 1979 shows a 32 per cant increase. Tha April 1978 figure was 14,972

Extarnal Migration (excludas armed forces)

	MONTH OF APRIL 1978	1979	YEAR ENDED APRIL 1978	1979
Arrivals				
Passengars	50,208	57,528	717,544	813,19[illegible]
Through Passengers	10,957	17,547	160,607	183,1[illegible]
Crews	14,193	17,088	178.957	175,7[illegible]
TOTAL	75,358	92,163	1,057,108	1,172,0[illegible]
Departures				
Passengars	65,744	77,744	739,476	844,4[illegible]
Through Passengers	10,957	17,547	160,607	183,1[illegible]
Crews	13,629	16,642	178,602	176,2[illegible]
TOTAL	90,330	111,933	1.078,685	1,203,7[illegible]
Nat Gain or Loss to Population	-14,972	-19,770	-21,577	-31,70[illegible]

Sharemarket News

Current Debenture Issues

Company	Opens	Closes
A.A. Finance	14 Feb 1979	14 Aug 1979
Alliad Finance	30 Mar 1979	30 Sep 1979
Auric Corporation	8 Dec 1978	31 May 1979
Aust. Guarantae NZ	22 Nov 1978	22 May 1979
BNZ Financa	16 Dec 1978	15 Jun 1979
Bowring Burgess	30 Nov 1978	30 May 1979
+Broadlands	15 Mar 1979	15 Sep 1979
Challanga	11 Apr 1979	10 Oct 1979
Cradit & Investments	1 May 1979	1 Nov 1979
Crown Finance	1 May 1979	1 Nov 1979
F & P Dealer Rentals	15 Dec 1978	8 Jun 1979
Foodstuffs Otago Southland	11 May 1979	11 Nov 1979
General Finance	22 Feb 1979	22 Aug 1979
+Ganaral Motors	30 Apr 1979	30 Oct 1979
International Hervestar	5 Mar 1979	5 Sept 1979
Lombard NZ	14 Dec 1978	14 Jun 1979
Marac Holdings	5 Mar 1979	5 Sep 1979
Medical Securities	8 Mar 1979	8 Sep 1979
NZI Finance	1 Feb 1979	1 Aug 1979
Paterson & Barr Financa	2 Feb 1979	2 Aug 1979
Ratail Devalopments Ltd	29 Jan 1979	29 Jul 1979
South Canty Finance	31 Jan 1979	31 Jul 1979
Tappenden	21 Feb 1979	21 Aug 1979
+Tranavision	28 Fab 1979	28 Aug 1979
UDC Ord	5 Dec 1978	5 Jun 1979

+Changed Ratas

New Prospectuses: Credit & Invastments, Crown Finance, Foodstuffs Otago Southland.
Issuea Closed: Finance and Discounts.

Bonus Issues of Ordinary Shares Pending

Company	Ratio	Maeting	Bks Close Inclusive	Ex Date
Alc Progent	1:5	24/7	28 Jul	25/7
*Asr Aspet	1:4	6/6	12 Jun	7/6
Crc Chpress	1:5	28/6	4 Jul	29/6
Mt Radloav	1:1	-	19 Jun	14/6
*nev Skellarp	1:10	15/6	21 Jun	18/6
Swanbrew	1:8	8/6	30 May	11/6
Smithblo	1:5	3/8	16 Aug	13/8

Share Price Index Statistics April, 1979

NZUC			
	Year to Data	High	343.37 (Apr 79)
		Low	317.10 (Fab 79)
	Month	High	343.85
		Low	326.79
Reserve Bank			
	Year to date	High	1453 (Apr 79)
		Low	1344 (Feb 79)
	Month	High	1453
		Low	1391

MONTHLY TURNOVER

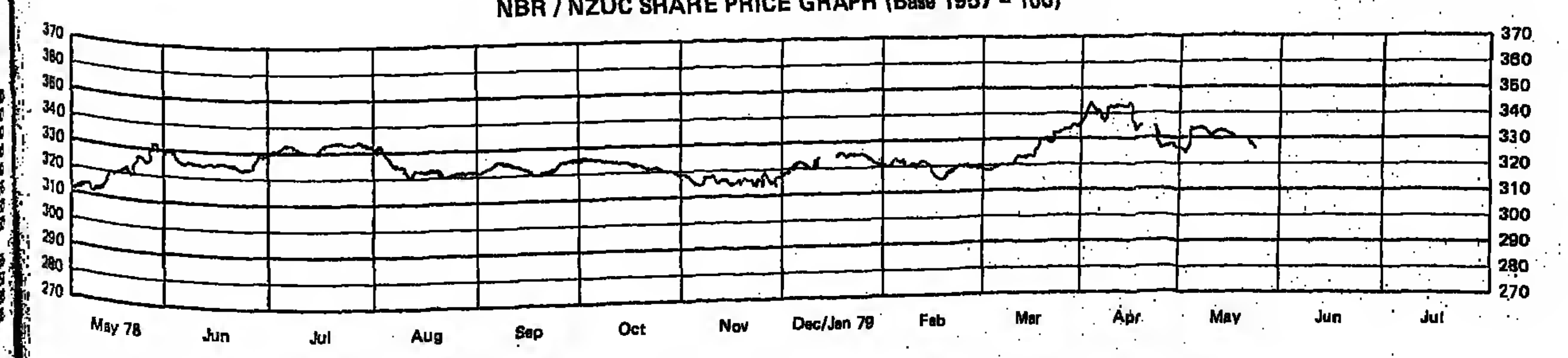
1978	May	[illegible]
	June	[illegible]
	July	[illegible]
	Aug.	[illegible]
	Sept	[illegible]
	Oct	[illegible]
	Nov	[illegible]
	Dec	[illegible]
1979	Jan	[illegible]
	Feb	[illegible]
	Mar	[illegible]
	April	

NBR SHAREMARKET SURVEY

WEEK ENDING MAY 24, 1979

1979 High	1979 Low	Company	Last Sale	Week's High	Week's Low	Dividend %	Reported Turnover	Dividend Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NBR / NZUC SHARE PRICE GRAPH (Base 1957 = 100)



PSIS: Fast growth brings financial indigestion

by Rae Mazengarb

THE Public Service Investment Society — highly successful co-operative, or undesirable competitor?

It's really a matter of opinion.

"The PSIS is a property developer, landlord, trader and financier, which finances itself from partly gullible and partly compulsory investors at rates of interest that are half normal market rates," the then president Colin Gibbs told last year's annual conference of the New Zealand Retailers Federation.

His caustic observation was prompted by the idea of "the tax expensive Public Service making massive inroads into retailing by paying rebates on purchases that are tax free rather than paying market interest rates which are taxable".

Digging a bit deeper, Gibbs said: "This PSIS is not an efficient retailer...It just exploits a linkage with the prolific Public Service".

Flying to the co-operative's defence, the then PSIS chairman, Jim Searle, called the attack an illustration of Gibbs' ignorance.

"Members are neither partly gullible nor partly compulsory investors as claimed," he said.

"Quite simply, members have voluntarily joined together to purchase and sell goods and lend and borrow money and any profit made after taxes are paid is distributed to members."

Ignorance, envy, or what ever, the PSIS has continued to grow both in size and wealth, acquiring more and more interests in outside businesses. And questions have continued to be asked about the sphere of its operations and the exemptions from taxation which it enjoys.

Today the PSIS has a membership of 184,000. And, according to the latest Society News, it has "well in excess of $100 million" of its members' funds invested in it. (The annual report for the year ending March 31, 1978 puts members' funds at $118,779,000 — more than double the $53,838,000 recorded for 1973.)

Its 27 retail outlets achieve more than $30 million in sales, a far cry from the trading turnover of 1958, when the society opened its first small retail store in Wellington.

The society owns eight travel agencies, four wholesale wine and spirit merchants, an interest in a vineyard, and recently added insurance to its operations.

It all began in 1828, after an officer of the Bank Officers' Guild Investment Society told a PSA meeting of the benefits of forming such an organisation.

Shortly after, an article appeared in the Public Service Journal.

"A decision has now been reached to embark upon the scheme which is in the nature of a 'money club' and will probably be called the Public Service Investment Society Limited".

And so the equivalent of a modern credit union was formed. State servants taking one share each could pool their money and lend it out.

Membership originally was limited to the PSA, but gradually state servants who were not PSA members — postal workers, policemen, the armed forces, railway workers and teachers — were admitted.

Local government employees were admitted in 1905.

Originally the society's function was limited largely to servicing members' savings and making loans to them, until it opened its first retail store in Wellington.

The PSIS had an arrangement with a few chosen retailers whereby members could buy a limited range of goods at about cost. In return, the retailers achieved greatly increased turnover.

In 1958, the Retailers' Federation decided it was unfair that only a few retailers should enjoy this privilege. It asked members to discontinue the practice.

So the society opened its own store.

Predictions that the business would go to the wall because of the society's inexperience and amateurism resulted in problems at securing supplies. But the first year yielded a modest profit.

By 1969, the PSIS owned 11 stores round the country which were returning just under $1 million profit.

The retail division expanded into the 1970s and management aimed for bigger and brighter stores, all the while attracting higher overheads.

Last year the annual report recorded gross profit from stores of $8,420,000.

But the chairman's report carried a warning: "This expansion of facilities took place at a time when the national growth in retail sales declined. Our society was no exception to the national trend and although the rebate of 12.5 per cent was maintained for the full year, your board had seriously to consider whether or not this level of rebate could be maintained . . ."

And it appeared that problems were developing in other areas.

As one observer puts it, the empire grew too fast in too short a time (membership more than doubled over the previous seven years) and with rising interest rates throughout the commercial world providing intense competition for funds, the society was headed towards a bout of "gigantic financial indigestion".

The society's financial division had grown to gigantic proportions with funds nearing $120 million by 1978.

Of this, some $50 million was on loan to members, and mortgages and miscellaneous loans — a further $4.6 million.

It had amassed more than $41 million in fixed assets such as land and buildings and company shares and debentures worth more than $13 million.

Investment Centre Wellington the massive 10-storey headquarters was occupied by 1978 and a shopping development in Willis Street was well under way on land which had been acquired along with an associated company.

The society had no sooner finished the 83-unit Hobson Court flats when it embarked on further residential projects in Berhampore (Wellington) and Auckland.

While legal wrangles over title have still to be resolved, all the Hobson Court units have now been sold.

But the downturn in the property market left the society unable to sell off the Berhampore flats.

The council granted the society a change of use to turn the flats into motels, reserving the right of the PSIS to sell them off at a later date — but its choice of land and inability to predict the market fall-off attracted severe criticism last year.

Operations in other areas were more successful.

The travel division achieved peak sales of $4.3 million in the year ended March 1978.

Liquor wholesaling, too, remains profitable.

But none of the liquor stores has been merged with the PSIS. Along with the travel agencies they remain subsidiary companies.

But by last year, members appeared to be tiring of what one termed the "one-sentence perfunctory statements" emanating from the board of management.

Information to members about their co-operative was scanty.

Many began asking the society to stop investing in buildings and debentures, and to make more funds av[ailable] for lending to members.

The economic [climate was] already moving ag[ainst] management.

In June the board [raised] interest rates on loan[s ...] per cent to 12 per cent [and] lowered interest pai[d on] contributors' deposits fr[om ...] to 3 per cent. Members [were] angered.

At the annual meeting [in] July (closed to the press) board members [includ]ing chairman Searle were [...] from the board management.

The meeting directed [the] board to explore alterna[tive] means of adjusting inter[est] rates.

In late August, the [board] reduced the rebate [on] members' purchases at [its] stores from 12.5 per cent [...] per cent and changed in[terest] rates again.

The contributors' de[posit] interest rate went back [...] per cent, but the 12 per [cent] loan interest charge re[mained] — except for a loan a[...] home (10.5 per cent).

Further changes w[ere] announced recently.

The Society News (... 1979) says the pre[sent] situation is influenced by:

(a) High and unst[able] interest rates o[n] borrowing and lending brought about a[...] Government policy.

(b) Erosion of sa[vings by] high rates of inflation.

(c) Strong competi[tion for] peoples savings, not only [from] the private sector but [also] from the Government s[...] to meet a substantial b[udget] deficit;

(d) On the retailing [side,] highly competitive p[rice] discounting.

The society is now offe[ring ...] per cent interest at call [...] the new Spend 'N S[ave] System, but there are likely liquidity problems.

Early this month the pre[ss] reported millions of dollars worth of shares had be[en] dumped at "bargain base[ment] prices". The board [...] remained quiet about the [...] until some shares were [...] to the PSIS as seller.

Acting chairman [...] Swinburn then denied r[umours] of liquidity problems. But [it] was the second time in [less] than 12 months that [large] blocks of shares had be[en] reported sold off.

Swinburn said the sales [were] part of a new policy [...] to make more money av[ailable] for lending to member[s ...] more money was need[ed to] meet the new Govern[ment] stock ratios.

Moreover, Swinburn [...] NBR that less than $[...] worth of shares were [...] and the PSIS benefited [from] the transactions.

It is not clear how [...] portfolio of shares the s[ociety] now holds.

Neither Swinburn [nor] general manager [...] Lawrence would say w[hether] there was the suggest[ion ...] because shares had [been] bought before Christ[mas ...] that the value of shares [...] about the same as [...]

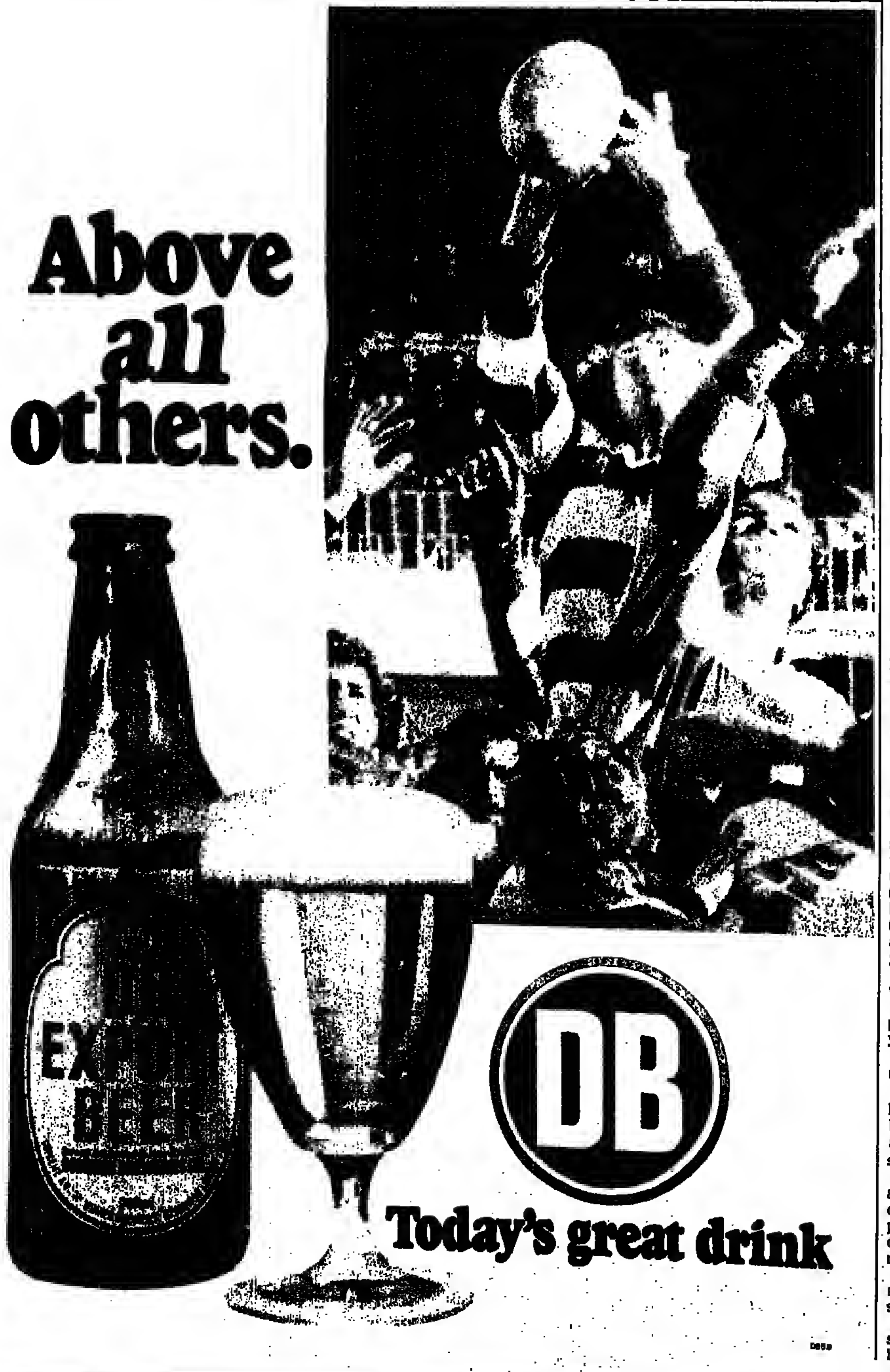
Members will not kn[ow ...] the next annual rep[ort is] delivered in late July.

The rebate policy, acc[ording] to observers, has effe[ctively] collapsed.

A 7.5 per cent base [...] level has been fixed for [...] store purchases, but [...] items will generally be [...] valued above $50. A n[...] items under $50 will [be] discounted.

Any additional surplu[s from] retail trading will [be] distributed to member[s who] have made rebate[able] purchases.

But as one critic said, [...] rather like punting.



Post Office prepares direct access to US

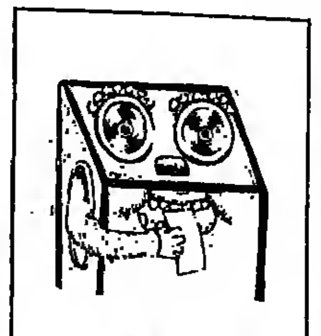
by Stephen Bell

THE Post Office is preparing a communications link to give New Zealanders direct access to two major computer networks in the United States.

Known as Telenet and Tymnel, the networks are run by operators, independent of the main US telecommunications authorities. These "value added network operators" provide an interface between a developer of a program or database and his potential user, enabling a user with a terminal to run the software remotely on the developer's own machine.

Hundreds of computers and thousands of user terminals are estimated to be already linked into the network.

The Post Office said that for some time, it has been possible to reach the networks from New Zealand through the regular Datel data transmission service. This however, is a costly and inconvenient process, involving the placing of an international toll call through an operator.



COMPUTERS

In addition, due to wrangles between United States and international communications authorities, the number of Datel circuits into America is severely restricted.

The new plan will give New Zealand users a dedicated link into the network, avoiding the national communications authorities' lines. The link will have direct dial and since several concurrent users share the one transmission line, costs will be reduced.

The Post Office declined to give an estimate of expected savings compared with Datel. The service will, however, be charged on a different basis — a standard rental plus an additional charge for the number of characters transmitted and received.

These charges relate only to the communications service provided. Any additional charge for the use of software would be a matter between the user and the network operator, said Post Office spokesman Max Saunders.

Installed equipment will take the form of a 4800 bit per second communications line, which branches at the New Zealand end to a number of 300 bit-second dial-up modems. Each user communicates with one of these modems at the slow speed.

In practice, this means dialling a special "group toll" number for each network. This connects the user with the United States entry point. From there on, he takes over with his terminal, requesting the network to route him to the machine whose service he wishes to use, and giving the appropriate password.

The initial service will enable only New Zealanders to use the network, not to link in a processor and contribute their own software. Provision of such a full network node could be considered for the future, said Saunders, but it would depend on the response to the initial set-up.

To date, he admitted, the number of users who had asked for direct access to the networks "could be counted on the fingers of one hand". The service would therefore require some "low key" promotion by the New Zealand Post Office.

Once set up, the link would require about two months testing within the Post Office, he said, but direct access was likely to be with the New Zealand user in a matter of "months, rather than years".

Delivery provides market edge

AMONG the initial batch of rival machines to IBM's 4300 series, Itel's 370-compatible Advanced System 3 model 5 seemed, at first to be one of the less competitive offerings. With 1.2 times the power of IBM's 4341, it was offered at more than 1.2 times the price.

A quick New Zealand market response however, has shown that the machine has other important advantages— principally its shorter delivery time.

The new IBM machines are not expected to arrive until well into next year. Itel, through its New Zealand sales agent International Data, is promising delivery at 60 days' notice.

With this in mind, two New Zealand IBM users have already ordered the Itel machine.

Denis Trotman, managing director of bureau Computer Services Ltd was not prepared to comment on the price paid for his machine, but asserted that even on pure price performance grounds the Itel was a good buy relative to the 4341. Delivery time, and the fact that the AS/3-5 supported the MVS operating system, also came into his calculations.

In the eyes of New Zealand Forest Products, the long delivery time of the 4341 put it right out of court, said DP manager Roy Vannini. The comparison was therefore between the AS/3-5 and IBM's older 3031 machine, when naturally the AS/3-5 showed up better.

Small computers push into ICI

by Stephen Bell

AFTER deliberating for almost two years, ICI has finally decided on the future course of data processing in the parent company and one of its major divisions, paint manufacturer Dulux.

The DP needs of both companies have been catered to date for by a shared IBM 370/135, but ICI has decided to replace this with two Qantel 1450 machines, one for each company. The processors will be part of an on-line system.

ICI's 370 has proved a casualty of the development of small computers. When first mooted in 1973, it was seen as a shared machine for all ICI divisions requiring computer power.

It quickly became obvious, though, that the divisions were going their own way with small machines: firstly CAC and Slide Fastener, quickly followed by the wallpapers division and UPEC.

The 135 began to look rather under-utilised, and the parent company in turn, "became aware that the possibility existed of doing what we were doing more cheaply", on a smaller machine, said development manager Chris Russell.

After examining tenders from "all the major manufacturers", the decision to go Qantel was essentially made last July. The rest of the time was spent planning the precise configuration required.

Although Qantel had been selected, general manager Geoff Madder pointed out, the company continued to keep an eye on developments emerging from other manufacturers, in case another more economical route became evident.

Even now, it will probably be about 18 months before the machines start full operation.

Prime reason for the long timescale, both in decision making and implementation, was ICI's insistence on receiving a complete functioning hardware and software "package", with one supplier taking full responsibility for support of hardware, software and telecommunications.

Most staff running the 370 will be leaving ICI and going to consultancy Contract Computer Services. CCS will run the 370 in the transitional period, doing ICI's work and some of its own under a facilities management agreement. The machine will continue to be owned by ICI and sited at their Wellington head office.

The Irish comparison

IRELAND is very like New Zealand in its way of life. It hss a predominantly pastoral socisty, without the mineral resources which makes our country potentially one of the richest in the world.

After 1922, Irish policy was heavily protectionist but in the mid-fifties there was a movement toward free trade. The high tariff wall waa dismantled, import licences removed, currency controls relaxed and income lsx gradually eliminated. The Shannon basin was declared a free trade zone.

Tha consequencas were vastly stimulating to the economy. Foreign investment poured in, new businessea starled, wsges rose, emigration slowed and goods in shopa became more plentiful and comparatively chesper. This preceded the bonus Ireland received by joining the EEC.

The writer csn claim some small credit in the matter. In 1955 he was one of the first to see the leader of tha new coalition Government, Sean T Costello, and urge on him the need to liberalise the Irish economy citing the Puerto Rican example ss to how such measures hsd helped transform an agrarian slum into a prosperous community.

There were some xanophobic reactions but tha standsrd of living improved. People sre now going to live in Ireland instead of leaving it. A bothy I could hsve bought in Connemara 10 years ago for $1000 sold recently for $16,000.

Irishmen are now not only able to survive on their own terms but have enough surplus capital to look for investments abroad, in countries like New Zealand.

It is about time we had a government which stopped borrowing against future assets like the prodigsl beneficiary of a large family trust and started working them.

Ned Halliburton
Whangaparaoa

LETTERS

Milk sales muddle

WHAT s ridiculous marketing operating our present milk distribution system is. All you have to do, as a customer, to buy the product is to get some bottles, locate a source of tokens, (not every retailer sells them) or find enough small chsnge to fit in the bottle. The more you want to buy the bigger the problem.

Let us look at another angle, milk at the right temperature, is an excellent drink, sold, as it usually is too hot or too cold, it's slop.

Finally, it says a lot for the product itself, that the disastrous bureaucratic system currently in use hasn't as yet, taken it off the market.

R J Hughes
Wellington

Fabricated crisis

WE have now learned from an informant inside National Party hesdquarters thet the party hierarchy knew petrol consumption had risen since the "crisis" began in late February. However the Minister of Energy, Mr Birch, preferred to accept other figures indicating a petrol saving when he knew there was no saving.

New Zealand is faced with the situation where the single car motorist, the small country garage proprietor and the whole hill country agricultural industry will be the chief sufferers of this ministerial deception. It is worse than incompetence.

Only now has the Government decided to do what it should have done at the outset — allow the price of petrol to rise to a point where demand equates with supply and consumption stabilises. It is incredible that a party supposedly committed to free enterprise should have ignored the logic of this conclusion by maintaining price control.

This organisation gave figures published by Radio New Zealand and the ... Times of April 10 ... showed that ... consumption had risen by ... per cent. This figure was ... officially denied and has ... been confirmed. ... consumption has remained ... approximately the ... growth level for the ... month.

There was no rise in ... consumption until ... Government panicked ... announced a crisis.

There was no need to ... down petrol stations and ... the individual business ... with contempt, as there ... petrol shortage in ... Zealand.

The Government with ... mania for regulations ... controls created the shortage.

One must now ask if this ... created crisis was a planned ... error, a political diversion ... take the public's mind ... more urgent issues or ... opening for those who have ... storage capacity to make ... handsome profit by buying ... all available petrol at ... artificially low price.

M J Sarge...
General Secret...
Association for the Survival ...
Enterprise in New Zeal...

The secrets of a successful Australian business trip.

by Peter Nelson
New Zealand Sales Manager - TAA.

One of the most important things you can do for the firm you represent on a business trip, is to present a confident, successful image of yourself. Your ability as a businessman, and therefore that of the company you represent, is so often judged by your ability to organise yourself. And the time when you need to be most organised — when you're making new and important business contacts — is the time when you're in a strange country, away from your usual office facilities and services.

What you need at a time like this is a friendly travelling personal assistant/secretarial service that is completely au fait with all the local services and customs. And this is exactly what TAA provides.

TAA – your assistant at the airport and your secretary in the sky.

TAA knows that one of your prime needs is to arrive at your business appointments on time; that all your transport needs — both in the air and on the ground — must be co-ordinated to a fine degree. To ensure this, they have a huge frequency of flights to all Australian cities at convenient times of the day or night, and will make any reservations you need for accommodation or transport. For those urgent documents TAA's Jet Express messenger delivery service will help you achieve your contract deadlines. TAA takes pride in being one of the most punctual airlines in the world — you can rely on their advice about which flight to take to get you to any given point at any given time. Makes planning your day so easy.

Their in-flight services will impress you too. Of course you'll receive a meal or refreshment service with complimentary luncheon or dinner wine if you are travelling first class, depending on the time of day. This service in itself is a great time saver if you have a heavy schedule ahead. You can relax and enjoy TAA's comfortable and friendly in-flight service and arrive refreshed and unhassled. You can ask the hostess to mail any correspondence for you, or radio ahead to book a Hertz, Budget or Avis rental car or a chauffeur-driven hire car to be ready at the airport when you arrive.

TAA's great 'Sneak-a-week' plan for rejuvenating weary businessmen.

This you really must experience. You owe it to yourself (not to mention your wife and the boss!). While you're in Australia, it costs so little to 'sneak-a-week' — or even a long weekend for a break that will bring you back feeling like a new man. Or at least a better version of the old one. For example, 4 nights at Hobart's Wrest Point Casino (ex Melbourne) could cost you less than $NZ200.00. That includes room only, share twin accommodation at the Casino, return TAA economy fares, and return ground transfers in Hobart. It's a fabulous way to unwind at the end of a business trip. And if that doesn't appeal — TAA have literally hundreds of similar holiday packages to Surfer's Paradise, the Gold Coast, tropical islands, the outback — all the major cities and holiday resorts.

Get in touch with your nearest TAA NZ bonded travel agent. He'll give you more information about the many TAA services specially designed to take the hassle out of your Australian business trips — and (what's more important) help you present your most confident, successful image.

TAA
TRANS-AUSTRALIA AIRLINES
The Friendly Australians

Policy yield slides down

INSURANCE compa... advertising high yield short-term policies. If ... pays a single premium of ... and the premium is deduc... and his tax rate is 50 cents ... the dollar, the effective ... his premium is $500. At the ... of 11 years he receives ... On his investment of $5... receives a return of 14 per ... compounded annually ... free. Although it sounds ... attractive, such policies ... pay a poor return in real terms.

Taking the table on p ... the 1978 Year Book ... treating the figure as ... we see that the consu... price index for food in ... 105, and in 1961 was ... man paid a $1000 prem... the end of 1950 and rec... $2000 at the end of 1961 ... $2000 would have only ... same purchasing pow... $1254 in 1950, as measured ... the index for food prices ... actual cost of that ... premium was only $500 ... that $500 grew in value ... $1254, or each dollar grew ... value to $2.51 in real terms ... we think in terms of ... purchasing power, the return ... was equivalent to 8.25 per cent ... compounded annually, tax free.

The following table gives ... tax free yield in real terms ... $1000 policies maturing ... 1961 to 1977, the ... calculated as above.

YEAR OF MATURITY	PERCENT... YIELD IN REAL TERMS
1961	8.5
1962	10.0
1963	10.8
1964	10.8
1965	11.1
1966	11.1
1967	11.1
1968	10.6
1969	10.4
1970	9.7
1971	9.1
1972	8.1
1973	7.1
1974	8.8
1975	8.5
1976	6.6
1977	2.7

Green oil offers escape

from OPEC but beet looks best. While the concept of "green oil is New Zealand's envisbla option for the future, its realisation can only be achieved by accurate appraisal of the fscts and exploitation of tha resources and technologies which actually exist.

There are a few points in your "green" oil (NBR, April 4) article daserving comment.

- Christchurch motorists would be driving on ethanol from fodder beet.
- Ethanol from fodder beet has not been produced on anything other than a small experimental scala. There is still a shortsge of information on the accurate costs involved. Gaining such information will take time and money.
- Tha report to the Energy Research and Development Committee has not been published and until all data has been accurately sssessed, statements out of context would appear unwise at this time.
- The comparative costs associated vary largely with the costs of row materials. Current wood residua costs are available, but beet costs are not. There are no plants, outside of the USSR, which produce ethanol from wood. Also fodder beet has not been used elsewhere.
- If farmers in the Canterbury region are prepared to grow a crop, harvest it and deliver it to a processing plant for $5.60/tonne (I assume the $40/tonne refers to dry weight, but fresh beets are 86 per cent water) then they must be congratulated for exhibiting a level of cost efficiency far in excess of any other arable crops. I don't know whara the relative figura of wood at $7-tonne arises but consider the following.

Ethanol is produced from sugar. It takes about two kilograms of sugar to produce one litre of ethanol. In addition energy inputs are required to concentrate the ethanol in the dilute fermentation liquor by distillation. For production of fermentation ethanol it is recognised that the cost of sugar is the major component of final ethenol production cost. Figures of 70 to 90 per cent ara quotad in the technical press, depending on tha size and age of process plant. However the guideline is clear, the cost of ethanol is directly proportional to the cost of sugar.

One tonne (or cubic metre) of fresh (or grean) wood (for example, radiata pina) contains 425 kilogrammes dry matter, from this we can recover 210 kilogrammes of sugar. Wood is currantly traded at anywhera, for example, from $2/tonne (sawdust) to $13/tonne in the Bay of Plenty, in a form ready for processing. This figure may be higher, for example chips at Mt Maunganui. Assuming a raw material wood cost of $12/tonne, the raw material cost of tha sugar recovered is 6 cents/kg. An estimate of processing costs (at commercial returns) is 4 cents/kg, giving a sugor transfer price of 10 cents/kg.

Fodder beet, on the other hand, has been reported 67 per cent recoverable fermentation sugar, dry basis, or 9 per cent on a fresh basis.

In other words, with the quoted delivery cost at $5.60/tonne the sugar cost would be over 6 centskg. In addition there would be processing costs of slicing and extracting, less costly than that required for wood — adding perhaps (rasl information is not available) one or two centskg sugar. In other words, at this price there is little difference in cost. However the residue from beet extraction is pulp which can be a disposal problem or by additional fermentation operations can be used for methane digestion to provide heat for the process.

The residue from sugar extraction of wood is lignin, from one tonne of green wood this would be about 140 kg. This is a prime energy source, with a calorific value higher than the sub-bituminous Waikato coal. It can provide by simple combustion, the total thermal energy requirements.

Much depends on the cost of the original material, wood is a commonly traded matarial and its costs can be easily assessed. There is however, no fixed price and locations plays a major role. Fodder beet is not a traded commodity and there is little information on the traded price. In fact, Lincoln College wants to embark on a three-year programme to study the basic agro-economics of fodder beet production. Finance for fodder beet research is very slender and as a consequance factual information is very thin. If real data is required, real money will be required. It will also take time.

The statement "methanol derived from wood is also relative cheap" is utter nonsense. There is no technology available anywhere for large scale production of methonol from wood. Small acale gasifiers sre effective, but large scale gasification of wood for methanol production hss not bean done commercially. Development of such technology will cost tens of millions of dollars. With the small population of New Zesland and the low allocation of GNP to research and developmant, anyone who thinks that such technology will be developed here is living in a fantasy world.

"But wood-produced ethanol might still hava a future. Victoria University scientists are investigating the manufacture of xylitol . . . Naw Zealand could produce ethanol as a cheap by-product." Xylitol production from wood has bean examined in considerable depth by scientists at the Forest Research Institute where they have technically compared its small scale production from several possible sources, from hardwoods and from corn cobs. Any further work has been halted until this product is given approval by tha United States FDA. Xylitol has yet to clear the United States carcinogenic barriar.

Xylitol production from wood might only be applicable to the South Island West Coast beech forests, aa beech has a high xylose content. Unless we start spooning the stuff into our coffee, total production would be relatively small. Since one can produce several times as much ethanol as xylitol from wood, one could hardly call it a by-product. The other factor is that one would be in for several millions of dollars to convert xylose to xylitol.

The Energy Research and Development Committee report should be interesting when it finally appears. It will be a useful document, if used wisely.

"In the short term methanol plants could use forest wasta." As mentioned above there is no available methanol from wood technology on a commercial scale. Gasifiers have been used for years (prior 1900), but no one has used the gas for methanol production.

It is a fact that the work at the Forest Research Institute is the only tangible evidence, in New Zealand, for the development of technology to produce alternative liquid fuels from available domestic resources. It may not be tha "best" but, as yet, we have no alternatives on which to make a valid comparison. It is technology which we hope can be applied commercially by 1981. The resource, about 2 million cubic metres of wood annually, is there and currently going to waste. This has the potential for yielding over 200 million litras of ethanol annually, together with a wide variety of valuable by-products, that is to say the basis of a large wood chemicals industry. It would not involve taking land out of other use (as would fodder beet) and for the future there is scope for expansion based on expected futura rasource availability and land availability for forestry. As a technology in itself we already have interest from major overseas process engineering companies which could rapidly repay the original investment.

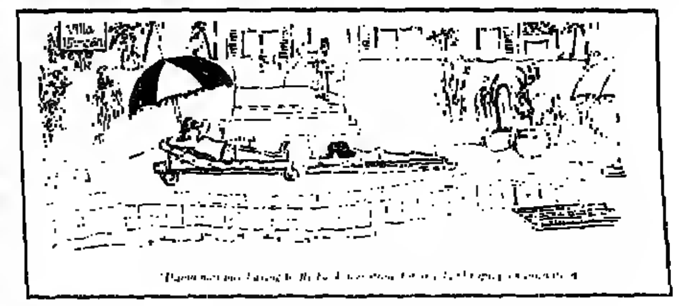
Developing hard factual data is far mora expensive and time consuming than pen and paper spaculation. There is nothing wrong with speculation but it should be kept in place. On this topic of energy there haa been too much talk about what could be done, criticising options which exist, praising those which don't. The results of five years of these committees and reports is a country unable to purchase its requirements at the current world prica, rationing by closure and carless days in tho offing.

"Green" oil offers a permanent release from the dependency on imported black oil. However not a drop will be produced by policy and planning groups postulating over tha possibilities.

There is no evidence that production scale methanol from wood is a definite option for this century. If ethanol from fodder beet is already so attractive there should be no hesitation over investment in productive plant. Ethanol from wood must also stand the test of the market place.

Government planning and policy groups should clarify the market for green oil and let the productive sector sort out supply.

Derek A Whitworth
Forest Research Institute
Rotorua



Gimmick confuses message

WHEN the gimmick gets in the way of the message, throw away the gimmick.

Wellington Savings Bank had an important sales message to deliver. It was upping its effective one, two and three year term deposit rate to 11 per cent . . . a top-of-the-house rate.

The headline of the newspaper display ad was "SIGN HERE!" followed by "It's that easy to make 11 per cent per annum on your savings and still be able to withdraw them at any time."

Now the "I" in "SIGN" was in outline lettering, in the form of a coupon with space for name, address and signature. People are used to seeing coupons in ads. This looked like a coupon, but wasn't.

It was just a confusing visual gimmick to stress the ease of making a deposit. But when has that ever been difficult? And shouldn't the stress be on 11 per cent?

Then the sub-headline promises that you can both get 11 per cent on your savings and still be able to withdraw them at any time. Not so.

The copy states, "Amounts withdrawn before 12 months but after three months will earn 8 per cent per annum and deposits withdrawn before three months earn the standard 3 per cent per annum." So you can't make 11 per cent and withdraw at "any time".

The more competitive the situation is, the more important it is to present the sales proposition in precise terms.

wsb

SIGN HERE!

It's that easy to make 11% per annum on your savings and still be able to withdraw them at any time.

wsb

GIMMICK . . . visual impact costs precise message.

INL award welcomed

AT long last, New Zealand is to have an advertising award which looks likely to achieve merit rating among advertising agencies.

The $10,000 prize money which Independent Newspapers Limited is putting up will at least assure that the INL Newspaper Awards for 1979 will receive the serious interest of creative people.

"Quite unexpected but nevertheless a most welcome move," was the reaction of Jack Ilott, president of the Advertising Agency Association.

"It's a great idea to promote press as a medium," said Terry Christie, Dormer Beck Campaign partner. "The good work done for daily press is often overshadowed by the glamour of TV and this will help to see that it gets recognition."

"Quite a progressive step," said Ross George, managing director of Carlton Carruthers du Chateau. "It's a good move to encourage a lot more interest in creativity for print. Providing the competition is judged by competent people, it should help to set standards."

It's certain that creative personnel will be looking critically at the criteria for adjudication in the expectation of a hard-nosed evaluation of advertising effectiveness rather than an appreciation of cosmetic values.

The announcement has so far only revealed that the awards "will recognise creative advertising and its effectiveness in terms of target audience to which the advertisement is directed."

The conditions of entry and criteria for judging are yet to be announced and should be advised within a few weeks but it is understood that any ads appearing in daily or weekly newspapers during the 1979 calendar year will be eligible.

Matchless matchbox

YOU will be familiar with advertising matches — but not as familiar as we are. Bryant & May (Wilkinson Match) sent us an advertising gimmick that's shaped like a jumbo matchbox and carries the message, "Your big chance to see your name in lights — Adlites".

The centre of the design is a match with its head a cutout from behind which a red light blinks — and blinks — and blinks.

Powered by a couple of cells it flashes 43 times every minute and every minute of every hour and every hour of every day and every day of every week — and the darn thing has been going non-stop for all of four months...interminably...remorselessly.

And now we are starting to cringe as the hypnotic light compels our attention. A feeling of enormous guilt creeps over us...because we live and work in an all-electric environment...and we don't smoke.

ADMARK

Motorists act to save petrol

WITH the advertising campaign for voluntary petrol saving saying one thing and official statements saying several different things from time to time, with a degree of ambivalence being exhibited on possible future measures arising from the crisis, car owners, who were perfectly entitled to be completely confused, made up their minds and took action accordingly.

To examine the response of motorists to the petrol crisis and their attitude to possible conservation measures, Ogilvy & Mather commissioned Heylen Research Centre to conduct a survey the other day.

Despite the communication confusion, the message has got through and your average car driver is reacting in a pretty co-operative way . . . women more so than men.

For example, where 78 per cent of car owners are reducing the number of driving trips, the figure for males is 73 per cent and for females 84 per cent. An identical proportion of drivers are also avoiding long distance runs. Over half, state that they are now walking rather than driving but the survey does not state under what conditions. And 16 per cent of the sample are taking buses or trains instead of the car.

In all the areas of saving petrol, the 55 years and over group is more active in conservation measures than the average and the 15-24 group less responsive. While the survey comments that the young group may be cynical regarding the need to conserve, the real reason may well be that they are using cost-free petrol supplied by dad. The significant point was that less than 8 per cent of those questioned had not taken any steps to reduce fuel consumption.

One owner in six, found more particularly in the higher income brackets, was thinking of buying a more economical car.

When offered a range of options for saving fuel, 47 per cent preferred rationing as a first choice and 31 per cent carless days selected by the car owner. Less than 7 per cent voted for compulsory carless days decided by the Government and less than 6 per cent were in favour of limiting the amount of petrol each station could sell, increasing the price of petrol or penalising drivers who carry no passengers.

On the question of car-pooling, although 81 per cent are willing to offer rides on a regular basis and 89 per cent were willing to become passengers, the fact is that only 12 per cent are actually involved in such a scheme.

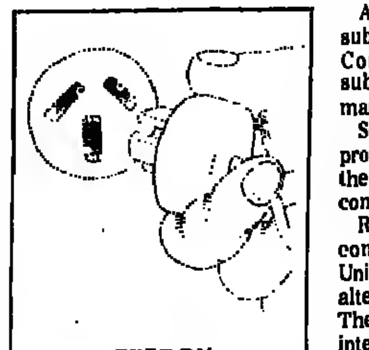
Obviously the need for voluntary petrol savings, for whatever reason, is a message that has got through to car owners and a large measure of credit for this must be given to the continuing advertising campaign for energy conservation.

It is reported that Government advertising on petrol saving was to be discontinued. When Admark questioned Energy Minister, Bill Birch, on this point he replied: "Initially we had a high level campaign on petrol conservation. Expenditure has now been reduced and we are maintaining spending at a low key on energy and petrol conservation."

Bob Lithgow, secretary-general of the NZ Automobile Association was unhappy about this. "We regard it as important to maintain a strong reminder campaign to promote voluntary saving," he told Admark. "Informed motorists will continue to respond to a reasoned appeal."

State shilly-shallying stalls ethanol project

by Rae Mazengarb



GOVERNMENT indecision on the Maui development and Marsden Point oil refinery is hampering the development of plans to turn maize into ethanol.

A Waikato-based company has undertaken exploratory research to see if a maize surplus can be economically used in energy farming.

The company envisages a plant costing "somewhere between $6 million and $15 million."

But it will not proceed with plans if Government goes ahead with its proposals to produce methanol from non-renewable Maui gas.

The company is Wrightson Te Awamutu Grains Limited, a grain-drying and storage operation.

It has a surplus of maize, which spokesman Don Fisher says is being exported "at a substantial loss". The company therefore looked at the potential of energy farming.

Wrightson Te Awamutu Grains Limited is an associated company of Wrightson NMA.

And Wrightson NMA is a subsidiary of Challenge Corporation. Another subsidiary is Rock Gas, marketers of LPG.

So a move toward the production of ethanol could be the logical step for the Waikato company.

Representatives from the company travelled to the United States to look for alternative uses for the maize. They found the "most interesting" use there was for the production of ethanol.

"Gasohol" — apparently causing widespread interest in America — is a blend of petrol and ethanol.

The maize harvest in New Zealand is just beginning but already there is talk of some 50,000 tonnes of possible surplus.

The broiler chicken industry accounts for about 75 per cent of maize production but consumption dropped substantially last year.

Two shipments totalling 32,000 tonnes have gone to the near East this year. More than one-third of this was surplus from last year.

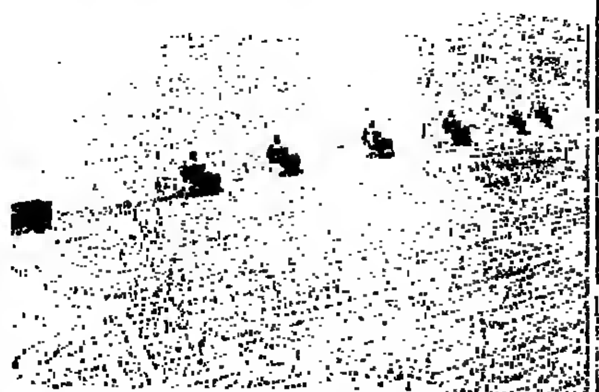
Walton Holmes, of Federated Farmers, said recently the intention was not to ship any more export maize until the intentions on the domestic market were made more obvious.

Ethanol production could provide a domestic use for the crop. Thus all eyes are on Government.

Maui comes on-stream at the end of this month and Government has already given the go-ahead for the Marsden oil expansion.

Within the next 12 to 18 months, the Government will have to tell the oil companies of the exact configuration required for the expansion, that is, if the refinery is expected to accommodate the move to produce methanol from methane gas, as an extender.

For the supporters of ethanol, derived from crops, this period will be critical.



MAIZE SURPLUS . . . energy farming

The Government appears obliged to go ahead with the production of methanol from a non-renewable resource because of the take-or-pay agreement for Maui. Thus the renewable ethanol option could be put back some 15 years.

So far no decisions have been made on production of methanol from Maui gas, but late last year the Liquid Fuels Trust Board let a contract to the Australian firm of Davy Pacific Limited, to carry out a feasibility study of methanol production in New Zealand.

The study has been completed and the board is studying the results.

But private-sector interests believe Government is turning its back on the strong lead of enthusiasm in energy farming.

"There is such a strong feeling that methanol will go ahead", said Fisher.

"There is not much encouragement for private enterprise to have a go".

The concept of energy farming was first mooted in 1974 as a serious option for New Zealand.

Since then there has been a considerable amount of research in universities and Government departments on the processing of crops to fuels but significant results have only just started to become available.

Garth Harris, in a report on behalf of the New Zealand Energy Research and Development Committee stated: "Because of the large amounts of Maui natural gas which will become available shortly, it is unlikely that energy farming will be used in a major way for transport fuel until at least the 1990s when Maui is starting to be depleted.

"Because of the long lead times, however, it would be highly desirable for New Zealand to undertake a development and demonstration programme in the 1980s with the object of having one or two commercial plants operating by 1990 . . . such an investment in our future could be termed wise insurance".

Fisher endorses these sentiments. The long lead times involved in the production of ethanol means that work has to start now, not when the Maui field has been depleted.

Asked if a plant would utilise only maize — which according to Harris' report, is not as economic as crops such as fodder beet — Fisher said the company was prepared to look for other sources of feedstock.

He recognises that the present maize surplus may even off in future years.

The company was also consulting with other groups such as the Forestry Research Institute and Liquid Fuels Trust Board, but so far research had been fairly basic.

Hence figures are still "very woolly".

Production costs have not yet been worked out, but Fisher admits ethanol production could not compete economically with methanol from Maui.

The Maui myth and our lack of liquid fuels

Energy Correspondent

FRIDAY night at 6.50 p.m., and I'm sitting here pushing piles of paper, trying to work-up 1000 words or so on the future of Liquid Fuels for New Zealand for the editor.

I don't need to look far to see what's happening. Out there, under the gaze of the "six sisters" who have served-up gasoline for three generations, the cars are heading for a final refuel for the next 60 hours.

It's expensive gasoline too . . at 38.6 cents a litre, most people are getting around in four-cylinder cars. Only the company men and the politicians get to ride in their "Yank Tanks" without too much worry about where the gas will come from and who'll end up paying for it.

Suppose I'd better stop this tirade, or else I might be accused of being one of those lefty civil servants, pushing a barrow. So, back to those "six dames" (Shell, BP, Mobil, Caltex, Atlantic and Europa). Lights out at 7 p.m. Friday till Monday.

Maybe if they had acted like a family, instead of bitching at each other, they'd be better able to reassure the poor sods lining up for petrol about the future of fuel supplies.

Sure, they found the Kapuni and Maui gas and condensate fields, but the same sisters were banging on the doors of Parliament in February, telling the Government they couldn't find a market for the gases, and they were quick to suggest the power stations start using more gas, so the country could gain from a greater recovery of condensate.

They might have done the country a bigger favour by planning for a gas recycling system for the Maui tower, so that the unwanted gas could be returned to the field without having to be wasted.

It seems crazy that when the world knew six years ago that oil demand would outstrip production, the Maui sisters and their Government brothers allowed a $500 million investment to spew out useless energy.

What's going to be the verdict of history? What will our kids say about all this?

Already the youngsters with long hair and slide rules have come up with their answers. They go a bit like this...

The sisters and a handful of the Government boys got together and plotted out what's proved to be optimistic demand growth. Then they got on to their calculators and worked out how much gas the power generators would use, and they had a deal.

It looked good for the motorist too. The condensate would go to the refinery and oil imports would be "backed off".

Then in the early 70s things started to go wrong. The Government boys started sending Cabinet papers up to their political masters which indicated the sisters stood to make a killing. The sisters wrote home to their mums, and further exploration stopped.

What the Government was afraid of was the ability of the sisters to defer taxation by "leap-frogging" from one development to another by reinvesting their profits. Of course there was no way the sisters could accept the three dollars a barrel oil levy dreamt up by the "clones of Eric Holland".

By this time OPEC supply and pricing hiccups were becoming a way of life. Every one looked at the Maui salvation. Gobbledegook such as LPG, CNG, synthetic gasoline-diesel, methanol, etc, continued to be talked about but no one did much about any of it.

Sure, the motorist didn't care "after all", said an acquaintance who had just sold his car, "when the supply runs out someone will come up with something".

In fact we all know they didn't. It's taken just another "hiccup" in OPEC pricing and production to bring home to the motorist that we are stuck with a mortgage over our entire export dairy production to drive our cars less and less.

These so-called new technologies (LPG, CNG, ethanol, etc) are in fact as old as the hills. During World War I a bloke called Talbot wrote a book called "The Oil Conquest of the World".

He found Britain with the same problem we've always had... "Seeing Great Britain does not yield a drop of petroleum, it is obvious that we must depend on our own salvation in matters pertaining to the motor spirit problem. This situation can be eased only by introducing a powerful competitor, such as alcohol."

The point, of course, is that Talbot was 70 years before his time. What would he say if he came back and saw the mess New Zealand has engineered?

For three generations we've burnt up the riches of other countries with not a thought about the potential for political and economic oil manipulation.

For scores of years we've been able to pay the prices they've asked. We've taxed their oil products and built bigger and better roads. We've taxed the bigger and better cars, and up until last year (with the establishment of the Liquid Fuels Trust Board) hardly a Government cent went into research and development of fuel alternatives such as ethanol.

No matter what any of the sisters may say ... the long-term future for transport can only lie in renewable energy systems.

Battery-powered cars charged by our renewable hydro-electric system aren't the economic joke that many say.

Ethanol from crops and trees is already viable in countries like Brazil, the United States and China.

The sceptics should be asked: "If you had to make the oil that nature provided, could you make it cheaper than ethanol?"

Ten years ago they'd laugh and point to the growing world oil production and the continuing discoveries of significant oil reserves.

Today they take the question seriously.

One of the sisters has even come up with a way of making synthetic gasoline and diesel.

It seems that New Zealand, a country described as the most energy-rich in the world, is hell bent on following the lead set by the energy-consuming nations which just happen to have the money that we don't. Their balance of payments surpluses can be traded for scarcer and expensive resource imports.

It's easy to understand, then, why the motorist is queuing up every Friday for his weekend driving.

New Zealand hasn't bothered to establish renewable liquid fuel systems and can't pay for the finite resources it has taken for granted.

For those who believe that Maui will give us salvation — the history books tell us that Maui is a myth. Today it is a dream created by some of the sisters for, at best, only two generation of New Zealanders.

But the price is not paid. We must be prepared to inject further vast sums of capital if we are to get to drive our cars on it.

As I finish, I note that the pumps are closed. Elsewhere, the hydro lakes are almost spilling water, the gas-fired power stations are going flat-out and LPG and CNG are just three letter words.

And some environmentalist with long hair and a slide rule is singing from the trees that have the potential to keep the motor car running forever.

Chairman's axemanship cheers unit holders

by Warren Berryman

FUND of New Zealand chairman Doug Hazsrd haa told unit holders what they wanted to hear — that administrstion costs were being cut back.

Holders have had their money locked into the ailing property-bssed trust for more than three years, during which time their units not only failed to earn intereat or dividend but diminished in value.

Though the fund had only 10 properties left in ita portfolio, management costs continued to sap the locked in investment.

The fund's management company ia Fund of New Zesland Services Ltd; its eudltors are Kendon Mills Muldoon and Browne; end the Trustee is New Zealand Insurance.

Dissident unit holders led by retired Auckland businessman Wilf Heath, have made repeated attempts to hsve the management company thrown out of office (aee NBR November 29, 1978).

They achieved one of their oims — to hava Hazard appointed to run tha fund and cut administrative costs.

Under Hazard's administration tbe office in Anzus House has been shut down and staff to administer the fund'a 10 properties cut back.

Three directors of Fund of New Zealand Services have resigned, which should cut director's fees.

But the fund is still in dismal shape from the point of view of unit holders return on investment.

New valuations are now being done on the fund'a propertiea. An optimistic prediction would put the new value of each unit at about $1.16. Bafore being locked in, units were salling for about $1.38.

Unit-holdera wera attracted by advartiaements atating that, "some or all of an investor'a units msy be sold at any time — there is no contractural period."

The fine print in tha fund's trust deed said a requeat to redeem unita wss at tha "absolute discretion of ths manogers".

Unit-holders were not given dctsiled informstion about the fund'a financial situation until it was too late and the mansgers locked them into a losing investment.

Chartwell Regional Centre Ltd was tha fund's major investment. Chartwells accounts for the year 1975 and 1978 ahow this company to have been technically insolvent.

Liabilities exceeded assets by $83,494 in 1975 and by $467,105 in 1976.

But the accounts for the Fund of New Zealand, prepared by the managers and audited by Kendon Mills Muldoon and Browne, did not provide unit holders with a set of consolidated accounts including Chartwell.

Chartwells' loss position was juat touched upon in these accounts.

Unit holders were not told of the amount of the losses. Nor were they told that Chartwell was unable to pay the fund the interest on its mortgsga over the Chartwell property.

An information bulletin put out by Hazard dealt specifically with the fund's two major investments, Chartwell and a block of rocky land in East Tamaki, both of which were not earning money.

Unit holdera were told they had invested more than $2 million in caah in Chartwell (Fund of New Zealand wrote off the interest on money owing by Chartwell in a cosmetic accounting exercise to render Chartwell solvent long before Hazard took over as chairman).

Hazord eaid Chortwell, "makes sufficient to meet all direct costs and to pay outalde mortgaga inetalmeots with a modest surplus, but is unable as yat to produce any return on the investment of $2 million.

"It is ebout three-quorters developed ond the problem to which I will be giving o lot of ottention is whother it is posaible to finance completion of tha centre (asauming

DOUG HAZARD . . . cut back in administration.

lessees are available) ond what effect it will have upon the fund if such completion is undertaken", Hozard suid.

"The centre is, in fact, well set up, is efficiently managed and is tidy and well kept. It is a logical decision to complete the centre, but of course it may be very difficult to finance", he said.

The fund's hungriest white elephont is the 92 acres of lond at East Tamaki. This property near a septic cleaning operation and covered by a large volcanic outcrop was bought in 1973 without benefit of an engineers report for $1.2 million.

The fund pays rates but receives no income from this property. Attempts to sell the property lsst year only raised o maximum bid of just over $1 million compared with the manager's book value of $1.47 million. This bid was turned down.

Hazard said: "In the present economic climate, it would be extremely difficult to attract anything but a really scrap heap offer and thara would be a limit on the amount of discount below book value which I would be prepared to recommend accepting."

Sources in the Auckland property market say the property is unlikely to fetch more than $1 million — and even at that figure a buyer would be hard to find.

The fund's smaller property holdings, Hazard said, were in a good position.

But the fund was over-invested in development properties.

Sale of the good properties and distribution of funds to unit holders who wanted out would precipitate an operating loss and would not make sense, Hazard said.

So unit-holdera remain locked in.

Considering loss on the value of units and a reasonable level of interest forgone (for example 10 to 12 per cent) unit holders have lost about $1 for every $1 they had invested in the fund when they were locked in by the managers.

Germans enter Australian insurance

Melbourne Correspondent

THE largest corporate collapse in Australia's commercial history, that of the finance company Associated Securities Ltd, has led to the sale of its insurance arm, Associated Group Insurance, to Allianz of Munich for $(A)2.8 million.

The crash of Associated Securities Ltd was in no way due to any failure of its insurance business, but stemmed from the slump in Australian real estate values.

Associated Group Insurance had been making a substantial profit, with premium income rising to $(A)7.4 million in 1978, and Allianz is reported to be planning the expansion of the company's business in what is believed to be the first direct entry of the German company into the Australian insurance market.

Two members of the Allianz board of management, Walter Rostock and Detlev von der Burg, will join the present general manager and assistant manager of AGI on the new board.

TRANSPORTATION

AN NBR SURVEY

Licensing: patched-up system needs review

by Bob Stolt

A REVIEW of the road transport licensing system is probably the most important single transport policy matter in the pipeline at present.

The review was promised in the 1978 Budget which also spoke of a restructured annual licence fee and a decision on the next stage of extending competition between road and rail transport.

There can be no doubt that the present system of road transport licensing is less than perfect, although the same of course can be said for all of mankind's creations. The present licensing system however, grew out of a period of unrestricted competition between the wars and, although it has been amended and patched from time to time, the basic philosophy is still the same. Whether this philosophy is as relevant 40 years on must be one of the basics being considered in the review.

When transport licensing was introduced back in the 1930s, the first annual report of the Transport Department described the aims of the legislation as follows:

- *To protect the roads and the traffic using them by controlling the numbers of heavy and fast vehicles.*
- To rationalise competition between road operators and between road and rail services in order to avoid waste of resources.
- To provide stable services in order to have safer and more reliable operations.
- To ensure public protection by insisting on insurance against carriers' liability.

In 1934, Transport Minister Coates described the licensing as "a solution to the ever-increasing problem of transport competition".

Coates said: "It was recognised that unregulated competition had resulted in duplication and even triplication of transport facilities and that it had forced the national overhead of transport costs up to a level that tended to retard the progress of industry and trade."

Licensing, said Coates, had brought substantial savings in vehicle mileage and the industry had greatly strengthened its financial stability.

Thus the working party set up to examine transport licensing must judge whether what Coates said in 1934 is still valid for the 1980s.

It was not until 1936 that the rail restriction, originally 48 kilometres was introduced by a Labour Government. Up till then, transport licensing had been seen mainly as a way of stopping ruinous competition between road firms . . . Indeed it was largely at the insistence of the road hauliers that road transport licensing was introduced.

What does today's road transport industry want from the licensing system which arose from its representations of the 1930s?

Road Transport Association president Bob Martin earlier this year laid down criteria which licensed road transport companies would like to see emerge from the present review.

Martin called for:

- All heavy goods vehicles and all goods service vehicles used for hire or and reward to be subject to transport licensing. This included ancillary vehicles.
- Controls on the quality of entrants into the hire and reward section of the industry. These would be based on an applicant's repute, financial standing and professional competence.
- A reduced number of licensing districts.
- Unrestricted operating rights within each district for goods service licensees.
- Specialised and long-distance vehicles to be controlled in number.
- More goods to be excluded from rail protection, especially those of a fragile or perishable nature.
- Licensing Authorities to be given wider powers of fining, awarding costs against applicants and suspending licences.
- Transport licences to be reviewed every five years.

Martin said transport licensing can not be divorced from the operations of New Zealand Railways. The railway system was largely freight-dependent and without some form of protection, such as the 150 kilometre limit, it could not survive.

There was a place, Martin said, for an efficient rail system within the country's transport network. He advocates formation of a railways corporation which, under a commercially oriented board, would be in a far better position to attain any financial goals set by a Government standing outside the sphere of operations.

There is a fair degree of common ground between Coates speaking in 1934 and Martin speaking in 1979, and that at least as far as the road transport industry is concerned transport licensing in its basics should continue.

Martin wants some changes, but they are changes in degree, such as more commodities exempt from the rail restriction rather than removal of the restriction itself. He asks for more, not less control — such as entry into the industry and licensing of ancillary vehicles. At the same time however, he asks for unrestricted rights within districts.

Martin's "efficient rail system" could live with the sorts of changes which he asks for on behalf of licensed carriers.

There is an apparent demand however, for something a lot more liberal than what Martin asks for. There are people who believe that road transport should be virtually delicensed and are continually pressing for this.

The very fact that the Government is reviewing transport licensing is quite likely the result of pressure from the delicensers.

Groups have pressed on a sort of part-time or occasional basis for freedom for road transport — they claim the end of licensing would be a boon, but they don't usually follow their arguments through and do not campaign continuously. They are mainly user groups, typically regional, and often at variance with views held by their own national organisations which are perhaps in a better position to get delicensing in perspective.

Typically, a group will propose removing road transport regulations so that competition can bring keener pricing (in other words they'll be able to play one operator off against another), but at the same time they will want to retain a rail service, not to

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Page 6
Good news for the out-of-towner

Working party attempts to unravel mode links

THREE reports, due to be presented to the Minister of Transport later this year, will have a major effect on the way the road transport industry conducts its business over the next decade.

The most comprehensive report will be that produced by the semi-official Transport Advisory Council (TAC), which is trying to sort out what kind of relationship the various transport modes should have in the future.

The most specific report will come from the working party considering the Road User Charges Act. This group of representatives from Government, the Road Transport and Manufacturers' Associations came into being last year following a strong lobby from the RTA concerning the operation of the road user charges system.

Perhaps the most important however, is the one about which the Government has so far said the least. And that concerns the Ministry of Transport's review of transport licensing legislation.

Colin McLachlan commissioned the TAC to undertake a thorough review of all aspects of transport in New Zealand during 1977. Cynics were saying at the time, that the major purpose of the exercise was to give the council something to occupy its time.

It took well into last year for ministry officials to come up with an overview of the transport system.

Each transport mode was then invited to make submissions on how its particular problems could be overcome. The council acted as a sounding board for a mode by mode discussion of the problems and the solutions put forward.

The council is now proceeding through a wad of paper toward what it hopes will be a definitive analysis of the problems and a clear blueprint for the future direction of transport services.

The announcement of a major transport licensing review came earlier this year, although it was presaged in last year's budget. Transport Ministry officials claim a minor victory within the Government machine by keeping the carrying out of the review within the ministry itself.

The report, which will cover all aspects of transport licensing, was to be completed by the end of next month. The Secretary for Transport, Bert Edwards says however, this deadline is not going to be met, although he's hopeful the report will be ready shortly afterward with any legislation arising from its recommendations introduced and passed through Parliament this session.

The Road Transport Association has been pushing for a heavy reduction in the number of road transport licensing districts from the present 12.

Even if this is not accepted by the Government, RTA President Bob Martin says: "All trucks should be licensed to carry all goods within each district and customers encouraged to use the cheapest means of transport".

Martin wants a revamped licensing system to have much more of a planning role than it does at present. "What licensing should be capable of, is imposing some entry qualification relating to sound economy and an essential service. The onus should be on the entrant to prove his worth."

The association also wants licensing authorities to get and use greater powers to suspend or cancel the licences of those breaking the regulations.

"In the present economic climate, it is vital that the industry be protected to some degree from careless or half-hearted newcomers who walk into the carrying business, chop rates out from everyone else, then promptly go out of business to the displeasure of transport users."

Martin might well have added that rate cutting was very much to the displeasure of established carrying firms as well.

The review of transport licensing, at least as far as it will affect road transport, has to be seen as part of the Government's overall transport strategy.

This is as much guided from the Treasury, as it is from the Ministry of Transport. In some senses it is more of an economic policy than one relating to the development of transport services.

Basically, the Government over the last 3¼ years, has been aiming to restructure the base of transport operations so that there is fair and equal competition between the various modes.

The first part of the programme was to extend the road transport limit to 150 kilometres. This was intended to give the road transport industry more freedom to compete with the Railways and to stimulate the Railways to concentrate more on bulk long haul freight movement.

Balanced against this, was the road user charges system which aims to make the road transport industry pay its proper share of roading system costs. This involved an increase in tax paid to the National Roads' Board. Arguments are still continuing about the basis on which that was assessed, and its relative distrubution within the carrying industry.

The Treasury view is that there should be a strict and permanent relationship established between the cost of providing a particular good or service and those who must pay for the use. They will then be able and obliged to charge the end user the full price involved. That's what restructuring means. Subsidies for social or other reasons are now axiomatically bad because they interfere with the proper operation of the market in pricing various commodities and and up producing the very kind of distortions and cross subsidies which the Treasury is now trying to avoid.

For the carriers, that new economic orthodoxy means more increases in road user charges over the next few years, balanced against possibly further extensions of the road transport limit beyond 150 kilometres and some relaxation of the protection given to the Railways in respect of what goods may not be carried by road.

In this context, a fourth report on transport, namely the long awaited one on the financial objectives of Railways, may turn out to be as important in its long-term effects as any of the other reports due for Government consideration this year.

The report of the working party considering the road user charges system is also due within a couple of months. Despite long and noisy arguments within the RTA about, both the basis of the system and its operation, and several submissions to the Government on these points, it seems unlikely that the working party will recommend anything which will fundamentally alter the present system.

It is acknowledged that the administration of the system is not all that it might be, and some moves to tidy up these aspects can be expected. There is also a political willingness to make those changes which are needed to make the system work better, but not to remake it from scratch.

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actually use but to threaten road carriers with.

With open competition on the roads and with the consequent rate cutting, many rail lines would lose so much traffic that they would not be worth retaining. There would be more trucks chasing a finite traffic and in fact "the national overhead of transport costs" would be forced up to a level "that tended to retard the progress of industry and trade" . . . Those are Coates' words again.

The most persistent advocates of having a close look at delicensing are in the Transport Ministry — the pressure is coming from theoreticians and academics, according to some road carriers.

This as no bad thing in itself. If delicensing is thoroughly examined and found to be full of fish-hooks, then it's a case of justice being seen to be done.

After all, the fact that people in transport instinctively feel that their industry needs regulation, does not mean that scrapping licensing is wrong — no more than saying it is right because theoreticians say it's right. The best course is to thoroughly thrash out the whole matter, once and for all.

There is no popular movement in favour of delicensing road transport or even adopting a system of minimum controls. In this respect it is interesting to note that the truck drivers in New South Wales who gained such publicity with their road blocks were actually demanding controls over their industry as a way of correcting the present situation of too many trucks chasing too little work. And in the United States, the feeling is growing that some form of control over road transport other than the present very loose system which takes little account of capacity, will have to be introduced.

The Government will resist any suggestions to dismantle the present system even if the current study does reach that conclusion. The 1978 Budget speaks of moves to ensure the Railways are to "exploit fully their economic strengths" while last year's National election manifesto pledged to continue to upgrade the Railways "to ensure that New Zealanders will be proud to work and travel on an efficient and reliable rail service".

There is no doubt that rail's fuel efficiency is an attraction to a government, hard-pressed to balance the books. But probably even more important is the point that if road transport rules were liberalised, there would have to be more trucks on the roads if the policy change was to have any meaning.

Liberalisation would see increased investment in road transport. The effects would be a reduction in rail revenue, a loss to the state's coffers, increased imports of trucks, tyres, fuel etc (a blow to the balance of payments) and overall, a diversion of scarce resources away from production into a servicing industry.

In the short-term, the nation can not afford that.

Transport licensing is currently being examined but there is not the pressure for sweeping change. Detail change, such as the road carriers' president Martin advocates is certainly likely and maybe desirable, but the basics are unlikely to be altered.

Transport policy follows on 1975 commitment

by Colin James

THE basis has been laid in transport policy, according to the Minister of Transport, Colin McLachlan.

McLachlan, Minister now for 3½ years, said in an interview that he had pointed the direction and that should now be becoming apparent.

Repeatedly throughout the interview he argued that it was important that each transport branch should be in the correct mode: doing what is most appropriate for it.

As an example, he said the railways were more suitable for long-haul freight carriage and the roads for short-haul.

He also constantly reaffirmed that the real costs should be made plainly evident to the public. But there would always be an element of subsidy—for social reasons or for reasons of ensuring competition in international operations.

Asked if he was guided by any fundamental principles in formulating transport policy, he referred to the commitment in the 1975 manifesto to co-ordinate all modes of transport and maximise the utilisation of existing equipment.

"The whole transport policy of New Zealand, in my opinion, has to be based on the fact that we've got three million people," he went on.

"We've got what I would call on worldwide standards a geographically difficult country and we've got to provide a system that will service those three million people and one which they can pay for.

"The first move in the direction of user-pays was the road-user charges.

"I had considerable difficulty with that and got considerable criticism for it. I think it would be a true statement to say that even the Road Transport Association have said, 'Alright, we accept the principle'."

NBR: How do you relate co-ordination and utilisation to the National Party's basic principles? Do you interpret the words co-ordination and utilisation in terms of perhaps more fundamental concepts still — such as private enterprise, competition, the free market and so on?

MCLACHLAN: Well, I don't think it goes quite that far because if we face fundamentals, you can never in a country have a complete private enterprise transport system. It will always be licensed to some degree. There will always be demands on the state for transport.

It includes using equipment fully, suggesting that if you've got railways rolling stock, you've got to keep using it in some way.

OF COURSE, the concept goes back to the fact that fundamentally, railways should be better on the long haul and road transport on the short-haul. It's trying to get them in their proper modes, the ones they do best, that we're in the process of going through now.

Using existing equipment fully suggests to me that we need to pay a social cost in order to use it, until it runs out.

SIR Basil Arthur asked the question in the House: "Do you believe in subsidising transport, or don't you?" I said: "There will always be some subsidy factor in transport." But governments have got to judge how much because they're spending taxpayers' money. When you ask for the hard, cold rules, it's a matter of day-to-day judgment.

Can I come to the point of licensing? The transport industry is pretty tightly licensed.

WE'RE doing a review now. Even the RTA (Road Transport Association) president said it's an outmoded system. So I've got the Ministry of Transport doing their exercise and I've also got the Transport Advisory Council doing theirs. They will bring their reports to Government.

What is your feeling about licensing?

THERE will always be a licensing factor in transport. There has to be. But it's the method by which it is done at the moment that I've got under review.

Would you like to see rather less tight licensing than there is now?

I'D LIKE to see a smoother administrative operation, so that we don't get these holdups, and where possibly the whole thing is simplified. It seems to me to get into a bottleneck at times. But I've got an open mind, except that I've been convinced by all sorts of modes' representatives that it was time it was looked at.

When do you expect the results?

THE Ministry of Transport are working on it and I wouldn't think there would be any legislation this year.

But when do you expect to receive their reports.

WELL, the ministry has said it will be a while yet.

It has been argued strongly in the case of Britain for much greater competition between road and rail to find out where the real costs lie.

YES, we've moved that way.

But you've still got the 100-mile limit, haven't you?

YES.

Have you considered the possibility that Peter Gordon handled round from time to time, of a Railways Corporation:

THAT comes up all the time. It was tried in the past. I think it was a commission, I'm speaking from memory now, by the late Mr Goosman. I'm having it checked just at the moment to find out just how far it went. People compare Railways with Air New Zealand and the Shipping Corporation. I think more is demanded of Railways in the social sector.

Have you thought in terms of trying to encourage the Railways to identify where their profits and losses lie?

THAT'S what we're doing now. I agreed that Mr Hayward (Tom Hayward, the general manager) should publish his document (Time for Change). What I'm trying to do is give them what people call open government. Let the people see the facts.

What we've given to the people is the statement on the problems of Railways and its recommendations for change. All those will be dealt with by Government. But I wanted them (the people) to discuss them before the Government comes out and says, "This is what we have finally decided to do." At least they can balance what we do and they can see where we're going and if they've got a case to put up. After all, the show belongs to them.

(McLachlan gave as an example his statement to Southland interests that it would cost $300,000 to upgrade the Lumsden-Kingston line to keep the tourist train, the Kingston Flyer operating.)

I DON'T think it hurts people to have to see it this way. I asked them (the Southland people), would they like to tally how much extra tax they'd be paying if I hadn't done what I've done (in closing down uneconomic branch lines). It amounts to a phenomenal figure.

What would be the extra cost?

WELL, I would have to have a whole list of things we have done. I think anyone's imagination would tell them.

You mentioned recently that you thought there would have to be a subsidy for the external operation of Air New Zealand.

I DIDN'T say I thought there would be. I led up to it talking about landing rights and the competition in the air. And I said, if we just said, "alright, we're going to have cheap fares" and try to compete against bigger countries — Australia with 14.5 million and the United States with more than 200 million — you'd end up in the situation where the Government would have to subsidise Air New Zealand.

Is the Government, if it comes to this, prepared to subsidise the external operation of Air New Zealand for some years, or is the commercial approach such that you would be prepared to drop the external operation?

WE'VE never considered dropping the external operation. Air New Zealand belongs to the people of New Zealand. No, I would say the Government wouldn't consider dropping Air New Zealand as an airline.

Even if it was losing money over a period of years?

WELL, you've got to get to that when you come to it. I've got the greatest confidence in Air New Zealand and quite frankly, all I've asked for in negotiating landing rights — which is what we do, in the main — is a fair go, because I've got so much confidence in them that I think they can compete on fair terms.

Is there any question of the internal operation being allowed to subsidise the external operation?

THAT wasn't the intention of it at all. I don't want to ask internal passengers to pay for those who go overseas, if that's what you're getting at. In fact, I've asked Air New Zealand to look at internal fares, especially the sort of package like somebody being able to take their family at a cheaper rate to encourage them to see their own country.

Is there a justification for the Shipping Corporation?

I WOULD think so. We live in a far outpost. And in a field of competition once again, the same as in the air. I think the Shipping Corporation has its place.

Can you specify more precisely what the value of the Shipping Corporation is? It creates competition ...

AGAINST overseas lines. It's in the conference. What I mean is, it's a competitive shipping line, it has to get its share. It keeps our people in work and we're having our share out of our produce. So we're not totally in the hands of other people.

This is the same as with the international airline. It's a remarkable achievement, in my view, for a nation of three million people to have built both a shipping line and an airline.

And it is worth carrying both, should they make losses, for the other reasons?

WELL, I go back to what I said before that you've always got to look at the size of the loss.

How much does the question of energy come into your considerations?

QUITE a bit. But it's not as simple as people think. People say: "Why don't you use more trains?" The train is not an energy conservation factor if it hasn't got enough people on it. In fact, the opposite happens; the bus is cheaper. It depends on the loading. On a long distance haul, the locomotive with the power they've got today and the power they will have in the future will have a saving. But especially on the suburban lines and feeder services, we've still got to do an exercise because it's not as simple as people are saying, if you haven't got the patronage.

Let's assume, for the purposes of argument there was an electrified rail service and a diesel-based road transport system. With the road system you would have a pressure on the balance of payments.

YES, depending on where you're running to. You'd also have a terrific outlay in suddenly electrifying the whole system. I wouldn't like to argue too much, but electricity mightn't be cheaper. I wouldn't like to prophesy the future, but the future will mean, as I see it, that we'll move more to electrification.

You said there is an exercise being done on the relative costs of trains and buses in the suburban transport system.

YES, well that's more done by Energy (the Ministry of Energy), with our blokes (the Ministry of Transport) assisting. Transport has certainly got a part to play, but Mr Birch is very keen to do this exercise.

Haven't you in a sense prejudged that by letting the contracts for the Wellington suburban passenger rolling stock:

WELLINGTON'S a different kettle of fish from any part of New Zealand in that they come down a corridor. And if there is a stoppage of the trains, it can take people hours to get to and from work on the roads. The roads simply can't handle the traffic, so we have to keep the trains running. It is different in Auckland.

Has Wellington been included in this study?

YES.

Urban link scheme will pick citizens' pockets

URBAN transport legislation, planned to be passed by Parliament this year, will have a major impact on the citizen's pocket.

As the Government moves to sort out the complex relationship among the various forms of transport in this country, in the passenger field it's worth remembering one salient fact.

No one makes money moving passengers along the ground. No local body or private bus operator involved in mass urban transport made money in the last financial year. The Railways put their loss on transport services at about half their expected overall loss of over $60 million.

Much of that cash is Government money. This Government seems to regard that sort of money in a completely different light to both past Governments and the way ordinary people regard their money.

To this Government, their expenditure is something to be cut down where possible,

COLIN McLACHLAN . . . user pays.

particularly if there is someone else who can pick up the tab.

Most of the time, that someone else is the person in the street. The Government has certainly got plenty of room to manoeuvre in the urban transport field. The losses abound and the whole area has been long overdue for reform. Successive Governments however, have been slow to grasp the prickly nettle and this one has really been no exception.

The Urban Transport White Paper has been around for nearly three years and despite promises in both 1977 and 1978 that legislation would be introduced and passed through the House in both those years, only now is a draft Bill being circulated confidentially to the interested parties.

So what is going to happen. Basically, the deal is that an animal called an Urban Transport Authority will be set up in Auckland, Hamilton, Wellington, Christchurch and Dunedin. It will be a legal entity but operate as part of the reformed local government structure. In Auckland for example the UTA will be the ARA and in the other centres, it will be the regional or united council, whichever the area adopts.

It will be charged with two responsibilities, developing an urban transport plan which will co-ordinate the movement of all forms of transport, buses, taxis, cars, bikes, trucks and pedestrians; and the actual provision of some of those services.

The planning must be linked in with operative district schemes and land use planning. For that reason, the UTAs are a vital part of any local government restructuring.

In this respect, they will have to develop their plans along with the National Roads' Board and the Railways.

As far as providing some of the services are concerned, the UTA will probably be treated much as local bodies operating transport services are at the moment. The Government will provide some cash—how much is an open question—and will co-ordinate planning through a national Urban Transport Council. This will replace the current Urban Public Passenger Transport Council and may be given wider powers.

The catch comes when the question of who pays arises.

It's almost certain that when it comes to the crunch that the Government will expect the UTAs to be virtually self supporting. That means, both fare increases and rises in rates to provide the services.

And in this context, the re-examination of the role of the Railways is of vital importance. The department, prompted by the Treasury and its own perilous economic circumstances, is anxious to shift the financial burden of its passenger services onto anyone else.

It may sound cynical, but the Railways probably doesn't care much who pays as long as it's not the Railways.

That does not mean an end to the Railways services in the urban transport field, but it does mean that its role as a funder of such services are close to being over.

Neither the department nor the Government's economists think it can afford that sort of luxury any longer. The burden of providing the services must be laid where it belongs—and that means the user pays.

Railways may well continue to operate urban passenger services, both rail and bus, but it will do so under the auspices of the UTA who will be responsible for finding the cash necessary to pay the department to provide those services.

Transport Minister Colin McLachlan recently spelt out the overall aims of the Government's transport policy.

He said the Government endorsed the user pays principle, it wants open competition among modes of transport and as few subsidies as possible.

What that adds up to in the urban transport field, is a reluctance to get involved in providing, operating or funding services beyond a bare minimum level, with the maximum responsibility for financing the services bestowed on the beneficiaries of the service.

How that is going to work out in practice is another question. But it seems clear that ratepayers are going to be told they will have to pay more for the service, they currently get subsidised by the taxpayer.

In Auckland, the ARA will have to face the fact that the Government is not going to bail them out when things go wrong in inner city transport. That, at least, is the way the new thinkers in the Treasury see the question.

What's left to the Government, is the political problem of persuading those bodies that they should pay more directly out of their own pockets in line with the new economic thinking.

Crediting community benefits offers NZR a track to solvency

by Bob Stott

AFTER nine successive loss-making years can New Zealand Railways re-write itself out of the red?

NZR lost over $60 million in the year to March 31, 1979. This compares with $37.8 million the previous year, $12 million in 1977, $63 million in 1976, $45 million in 1975, $8.6 million in 1974, $3.4 million in 1973, $4.3 million in 1972 and $7.6 million in 1971.

In 1970 there was a surplus of $3.6 million and prior to that the pattern was of modest profits interspersed with short periods of modest deficits.

The 1979 $60 million deficit is annually equal to at least $20 per person. By European standards however, the loss is not great when measured on this basis. British Rail's 1977 loss equalled about $16.00 per head, while in France in the same year SNCF's loss equalled $38; Germany's DB lost $75, and in Belgium, the SNCB lost $77.30 per head. In Europe the future is bleak if judged on a profit and loss basis.

German sources sum up their public's attitude toward the losses as: "It's only Bonn and the railway brass who worry about these things. The public's just not interested. They take a good railway service for granted."

Something of that attitude prevails in New Zealand, although many in Wellington are concerned at the mounting rail loss. And road transport interests are unhappy that their main competitor does not have to be profitable, but many prefer rail services and losses in preference to no rail services in their area.

When the Railways announce the impending end of a particular passenger service, those directly affected (or who think they could be affected) display agitation. They claim that the service is "essential", even if it's hardly ever used. Profitability is rarely mentioned—so many people can live with the Railways' financial losses as long as they are getting something for it.

The Railways' "loss" is probably regarded more as a "cost" . . . and this cost is something many are still prepared to live with.

To put this cost into perspective it is interesting to note that: the Transport Ministry road division has an annual cost to the community of $25 million; the police is $83.7 million; and the DSIR cost is $12.7 million. All contribute useful or even essential services to the community.

If the nation, as a whole really objected to the Railways' loss, whichever Government was in power would feel obliged to take fairly drastic action. This is not the case. The Railways' loss is not an election issue.

There are good reasons however, why the NZR deficit should be eliminated. As long as the operation is in the red, suspicion remains in the road transport industry that the NZR is somehow undercutting private enterprise.

TREVOR HAYWARD . . . losses halved.

As long as a loss exists, the potential for inefficiency in the NZR is greater than it could be. In a deficit situation it is very difficult to set attainable and positive targets — there's no sense of achievement in ending the year with a loss no greater than had been budgeted for.

The annual deficit can be reduced by book-keeping methods, and NZR's general manager Trevor Hayward showed how this could be done in the booklet Time for Change.

Hayward's figures showed that the suggested loss of $80 million this year could be halved by adding figures in a different way. He showed passenger services losses of $19 million, a deficit on the Westland railways of $7 million and a deficit of $3 million on the Gisborne line. He said that the NZR's $2 million per annum apprentice scheme trained staff who vanished into private enterprise at an alarming rate.

Hayward did not define losses on several other routes such as lines north of Whangarei, Otago Central, Thames or Kingston and so on, but adding up the given figures (and allowing half the cost of apprentice training) gives a total of $30 million, which cuts a $60 million deficit in half. If the passenger losses were set against regional authority accounts in city areas and regional development accounts in rural areas, and if the maintenance of secondary lines was also a charge on regional development, the NZR would be returning into the black.

The Railways, despite continuing slight reductions in total staff, still has too many people on the payroll, and here the scope for economies is wide. Sack a person and the savings persist year after year . . . to the Railways that is, because the fired railwayman may well end up unemployed with someone else's account paying the cost.

Is it better to fire staff from public enterprises and increase the ranks of the unemployed or keep staff who are under-employed but at least feeling they are doing something vaguely useful? Maybe the difference in cost to the community is not all that great. If the NZR is carrying extra staff however, then it should be credited with the sum it costs to do this.

Time for Change indicates that the NZR may soon take major steps and produce, not only the traditional annual report to Parliament, but also a set of figures which show credits or benefits to the community set against the annual deficit. British Rail is one system which has followed this course—as a result, by the time credit has been given for social services, BR is left with a system which does run at a profit. Thus an attainable target is created.

If the NZR is credited for such money-losers as Hutt Valley buses and Waitakere suburban trains, the annual deficit can be reduced. If the present streamlining is continued at an increasing pace (closing minor stations, trimming back the remnants of branchlines and so on) and if socially necessary regional services are funded from some other account—then profitability is possible.

And however much the NZR costs us, the annual sum is never likely to top the annual cost of motoring accidents—currently $160 million a year.

Air New Zealand flies in cloudy skies

PUNDITS predicting massive losses for Air New Zealand this financial year are likely to be wrong, and those claiming that the airline lost 30 or so million dollars for the year ending last March are almost certain to be mistaken.

Much more likely, the financial results for the last year will be disappointing but show a modest profit when the activities of the two sides of the operation are taken together.

The emphasis is on the modest part of the profit. It will be very surprising that the operating profit (net of capital profits and extraordinary items) will be anything to boast about.

Certainly, the results of the two, then separate airlines, in their last year of independent operation were nothing of great commercial note.

NAC recorded a profit of $2.986 million after an operating surplus of just under $7 million to March 1978 on total revenue of $98.8 million and paid a 5 per cent dividend.

Air New Zealand, in the same year, made a profit of $5.472 million down over half from the previous year. And $2.26 million of that profit came from a tax write back. The operating profit was $15.78 million on total revenue of $230 million and the company paid a 5 per cent dividend.

In their last year, NAC managed a profit which was 4.1 per cent of revenue, while Air New Zealand could manage only 2.4 per cent, although it had been a more healthy 5.6 per cent the previous year.

Some observers argue that with the international division in so much strife in the cheap air fares battle, the domestic division would have to carry the company in the year just ended and in the current period as well.

It's hard to see on the profit figures that are available, how either wing could really support the other in bad times.

Those bad times may well come to pass this financial year. And no one in the new Air New Zealand seems willing to do much more than hope for a profit of some kind.

Even the airline's general manager (corporate finance), Alan Varcoe is not optimistic.

He said the other day that the airline's expenses for financial 1979-80 would total $400 million and theoretically a profit of $20 million would be needed to achieve a 5 per cent return on revenue. That is, he *puts revenue at $400 million as well.*

Varcoe said: "This year, I don't believe our $20 million profit is there and to that extent it will be a difficult year."

However, he added: "In the present volatile commercial situation in the airline industry, we can't be completely certain that we will finish the year above the line. But that certainly is our intention."

The airline's chief executive Morrie Davis was more blunt. He refused to say whether he was expecting a profit or a loss, but gave the clear impression that he regards talk about losses as, at best, rank defeatism and, at worst, outright heresy.

Nonetheless, it's clear that this year the airline has not got much to come and go on with operating costs continuing to rise balanced against further increases in traffic demand.

Transport profits follow economic fluctuations

by Peter V O'Brien

TRANSPORT companies listed on New Zealand stock exchanges have gone through three phases in the 1970s.

The early part of the decade saw the formation of large national groups, or of companies covering wide regions. Freightways Express Ltd, Brambles Burnett, and the "new look" TNL group (formerly Transport (Nelson) Ltd) arose from the merger of acquisition of regional transport operators. Some of the constituent parts already had a loose association in their freightforwarding activities.

Freightways, for example, brought together companies operating mainly in North Island regions, and the company then took over New Zealand Express Co Ltd in the South Island to produce a nation-wide organisation capable, in conjunction with the Cook Strait ferries, of forwarding freight from virtually any part of New Zealand to another.

Brambles Burnett was the outcome of the Australian giant, Brambles Industries, buying into the Burnett group of Ashburton, and adding in other companies which had a freight forwarding enterprise centred on container movements.

At approximately the same time, TNL moved out of its Nelson-Marlborough-West Coast base into Canterbury, and also acquired interests in Taranaki and Wellington. The Nelson-based company has since diversified into passenger transport (through merger of the Newmans Group, which had associations with TNL through the Newman family), tourism, and has recently taken an active interest in the horticultural industry. The company also has other manufacturing and mineral business.

The listed companies had formed themselves into three national groups by the mid 1970s. Two smaller regional operators, Transport North Canterbury Ltd, and Trans Ashburton Ltd, then achieved listing, but they have maintained their interests in the area north of Christchurch and in Central and South Canterbury.

A period of consolidation, coinciding with the recession, was the second phase of company development. That period also involved the development of stronger international freight forwarding activities, and growth in courier and security services as a natural movement from the transport of general freight.

The companies now appear to be diversifying from "pure" road transport into other business, although there is usually a loose transport link.

Freightways is in the tyre servicing business (Bandang Industries New Zealand Ltd), while Brambles Burnett has a 33 per cent interest in waste collection (Industrial Waste Collections Ltd) and operates a crane hire division through the Auckland based company, Carlton Cranes Ltd.

But diversification has also gone beyond transport, with Freightways' involvement in building supplies and TNL's horticultural business, (although that is a fairly logical extension of farming interests in the South Island). Brambles has interests in the construction industry. The Burnett Group in Ashburton had been in construction for several years, so the present operation is hardly "diversification", although recently the division was reorganised and developed along more efficient lines.

The three groups dominate the transport industry, whether that industry is confined to listed companies or other organisations. But other listed companies have sizeable transport fleets as a section of their main business. Winstone Ltd owns the large Northland company, Hardie Bros Ltd, which has a substantial share of road transport in the Far North. NZ Forest Products Ltd operates a massive fleet, mainly for its forestry activities, but the group has subsidiary and associate companies in transport and in the motor vehicle industry. Forest Products fleet has a book value larger than the total assets of many other listed companies. "Vehicles and Equipment" (excluding plant) had a book value of $14 million at March 31, 1978. This year's balance sheet should show an increase on that amount. Tourist companies also run road transport divisions.

The overall state of the economy has a particular effect on transport companies, in addition to its influence on all industries. When economic times are relatively good they develop on all fronts. Rising imports produce more work "across the wharf", while higher industrial production flows through to a demand for cartage.

Rural operations benefit from higher prices or increased output of farm produce. The reverse situation applies, again on all fronts, in an economic downturn. Lower demand leads to a reduction in imports. That in turn affects industrial output. Low farm prices can force farmers to retain stock. The volume of goods moving into, through, and out of, the country will decline.

Demand for transport falls in all areas, and the companies can be left with under utilised plant. Consequently, the industry is constantly looking for efficient use of its fleet, which involves strict control of overheads. Since units are priced in the six figure region, even a small drop in demand can influence profitability.

Fluctuations in the New Zealand economy show up in the equally fluctuating profit returns among the "big three" listed companies. The table gives the return of net profit to average shareholders funds since 1974. Each company balances on June 30, so the figures are comparable, although a different business mix has a marginal effect.

Profitability has improved this year, at least at the half way point. The change is understandable, given the stimulation of the economy throughout 1978. The first half improvement may be sufficient to carry the groups to a higher profit level for the full year, but present economic trends suggest that the second six months could see some decline in earnings growth relative to the same period of the previous year, and in comparison with the position between July and December, 1978.

Company Return (per cent)

YEAR	BRAMBLES BURNETT	FREIGHTWAYS EXPRESS	TNL
1974	11.9	19.8	20.0
1975	Loss	15.1	15.0
1976	13.1	16.1	16.3
1977	18.7	21.7	18.1
1978	7.1	10.9	9.9

Brambles Burnett had a first half profit of $242,600, compared with $209,400 in 1977-78. The improvement was 15.8 per cent. Freightways went from $1,396,000 to $1,847,000 in the period, an increase of 32.3 per cent.

TNL produced a profit of $1,308,000 as against $891,000 in 1977-78. While the profit increase was 46.8 per cent, it has to be considered in the light of the previous year's depressed earning rate, as shown in the table. TNL's final figure for the 12 months was $1 million, or 29 per cent, lower than the 1976-77 result.

Fluctuating profits and the state of the economy affected the companies as investments in recent years, after a period of good capital growth in the early 1970s. Today, the capital gains to investors are small, after allowance for the dull performance of the whole sharemarket.

The trend is seen in the price movements this year. Brambles Burnett was selling at 45 cents for the 50 cents units last week, with a high of 52 cents and a low of 44 cents. The movement has been 25 per cent in total, but the dollar return is small, unless the investor buys a substantial number of shares at the bottom and sells them at the top, a very difficult exercise.

Freightways 50 cents shares were priced last week at $1.05, having moved between 92 cents and $1.12 this year, a variation of 20 per cent.

TNL's shares sold at 80 cents a week ago. The price has ranged from 75 to 86 cents since January. The range is 14.6 per cent, but, as in the other cases, few people can hit the bottom and the top with any quantity of shares.

Low fares mean profit

by John Draper

LOW fares and giant jumbo jets are British Airways formula for profitable survival in the mid 1980s.

While Air New Zealand struggles to break even, the British carrier is already planning for the changes it foresees sweeping the aviation industry in the next decade.

Finance director Roy Watts, speaking in London the other day, said a totally deregulated environment, akin to what is now happening in the American domestic market, inspired by President Carter's open skies policy, would be strange territory for the airline.

"But we are confident of our ability to deal with it and the detailed planning necessary for us to do so is already well in hand," he said.

British Airways expects its long haul routes to the United States West Coast and the Far East to be among the fastest growing. Low fares will be the key.

By 1988 low fare passengers will account for four fifths of the airline's business, Watt says. And to make the services pay, "it is essential to screw down seat kilometre costs".

To do that, British Airways is giving serious consideration to buying a jumbo jumbo jet seating up to 600 passengers. Boeing already has a stretched version of the 747 on the drawing board.

Meanwhile, Air New Zealand is calculating whether the early introduction of jumbo jets across the Pacific, either Boeing 747s or stretched DC10s, might start profits climbing again.

Energy crisis gusts wind power off drawing board into airships

by John Draper

CRUISE to London in five days enjoying the spacious luxury aboard your Air New Zealand airship.

An advertisement of the 1930s? No, a glimpse of what travel in the 1990s might be like.

Ten years ago the scenario had a nuclear-powered fleet plying the sealanes, while supersonic jets left Auckland at breakfast arriving in London in time for dinner.

The nuclear merchantmen Savannah and Concorde are lonely reminders of that dream.

Airships, however, never really died with the horrific fiery crashes of the Hindenberg and the R101 in the 1930s.

During World War II they were used as barrage balloons in Britain. In the United States, Goodyear has been keeping the concept afloat using airships in advertising stunts.

Rising fuel prices and the development of lighter and more efficient materials is bringing the blimp back into vogue.

Orders are starting to come in with 22 blimps being built in Britain for a Venezuelan advertising agency. And the Royal Navy is sitting in on flying trials and may well put in an order to use the airships for patrolling Britain's 320 kilometre economic zone. The prototype will also cross the Atlantic to undergo trials with the United States Navy.

Designed by Aerospace Developments, the 150 metre long 12-seater AD500 made its first flight earlier this year, from the same hangar that housed the ill fated R101.

Meanwhile on the Isle of Man, Major Malcolm Wren, a former Royal Engineer officer, is building flying saucers. The helium filled discs, he claims, have a big advantage over the traditional cigar-shaped airship.

And already European Ferries, one of the biggest cross-Channel ferry operators, is interested in the "Thermoskyship" having invested $4 million in its development.

The $3.6 million Thermoskyship has a similar performance to a helicopter but a lower operating cost.

Initially, the Thermoskyship will carry 60 passengers at speeds up to 90 knots over 1400 kilometres.

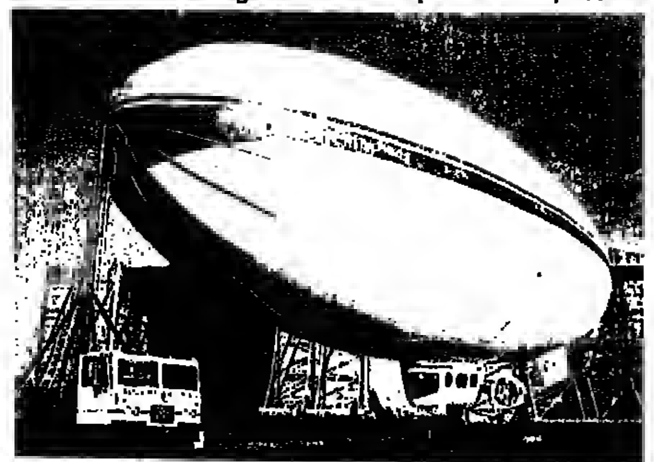
European Ferries is hoping to introduce passenger services in 1982.

New Zealand is not far behind in the airship race. Hamilton-based Aerospace Industries is investigating the construction of a small blimp for passenger, freight and military use.

Originally the project looked at the possibility of a large airship capable of making a five-day journey to Britain carrying freight. Designwork proved the feasibility but $30 million was needed to lift it off the drawing board.

The airship was designed to football field dimensions by Patrick Monk, to carry a 780 tonne payload.

But the cost — though less than a $50 million Boeing Jumbo jet — was considered beyond the resources of a New Zealand enterprise.



FISHERY PROTECTION . . . white polyester envelope contains 5097 cubic metres of helium.

Monk says New Zealand is ideal for an airship operation. Tonnages moved between the major cities are not large. Several hundred tonnes between Auckland and Wellington might keep an airship busy. Between Edinburgh and London, a similar distance, several hundred airships would be needed to cope with the usual freight pattern.

Monk has an airship capable of carrying 38 tonnes on the drawing board.

Next month a seminar is being held in Hamilton to stir up interest and cash for the project.

A few airships, with capability of remaining aloft for 100 hours could help the already over taxed air force Orions patrolling the 320 kilometre economic zone.

Filled with Maui gas the larger version could be towed by a small tug to give the South Island natural gas.

And airships could easily takeover the Railways' passenger carrying role, including the Cook Strait ferries offering a speedier service for not much more. Auckland to Wellington, virtually city centre to city centre, could be flown in four hours.

Essentially, it is modern technology which is giving airships a new lease of life. New stronger, lighter materials, improved engine efficiencies all go to make them an economic proposition.

Their main saving comes from their lighter-than-air characteristic. Conventional aircraft use up to 17 per cent of their fuel on a long journey in the climb to cruising altitude. Airships need no power to overcome gravity. They want thrust only to give forward motion.

Using directional engines like a Harrier jump jet, descent and ascent can be controlled as well as forward motion without loosing helium.

Modern technology is giving an even older transport mode a new lease of life. Computer-controlled sailing ships are being studied as a possible solution to the high cost of conventional shipping.

The British Government is supporting a feasibility study into bringing sail back to the trade routes. Windrose Ships Ltd is proposing a 12,000 tonne barque with auxiliary motor. The $10 million ship would have a crew of 51, sail at 11 knots, and annually save approximately $1 million in running costs over a similar sized container ship.

In looking at square riggers, Windrose ruled out the computer controlled dynaship, which has six cylindrical masts capable of being turned through 180 degrees. Inside each mast six aerodynamically curved yards are fixed which carry the sails. Computers control the setting to draw maximum wind effectiveness.

Windrose dismissed the dynaship as being likely to turn broadside in strong winds.

At the other end of speed spectrum American aircraft maker, McDonnell Douglas has joined forces with British Aerospace and Aerospatiale of France to look at improving Concorde.

The project, at this stage a paper exercise only, aims at producing a 200-seat supersonic transport updating the 1950s technology on which Concorde is based.

But the emphasis in crystal ball gazing has switched away from the high cost oil rich technologies to alternative fuel sources and efficient, environmentally sound transport.

Cars are likely to be the main form of transport round New Zealand well into our century.

With a scattered low-density population, even in the cities, there seems no alternative. Mass transport systems like railways need high density population centres for survival.

Long distance rail travel is likely to disappear completely in the early 1990s. This will leave the slow, creaking third world style narrow gauge network — the politically expedient, "cheap" option taken by a government long ago — to bulk freight, where it can be most efficient.

In the next decade, natural gas, either compressed or as liquified petroleum gas, is likely to replace the petrol engine in many cars, trucks and buses.

In the 1990s a wider choice may be available. Electric cars are being developed but a technological breakthrough is needed to produce a light weight cheap battery.

For town use, Canterbury University is perfecting existing technology to make a battery car economic.

The prototype has fulfilled its designers dreams and now a four-seat production model is being worked on.

Looking beyond the year 2000, New Zealand might become self sufficient in its fuel requirements with forests and crops providing methanol and ethanol to make "green oil".

Rail rates play key role in coastal shipping

by Bob Stott

COASTAL shipping will remain an unsatisfactory investment as long as governments persist in playing round with Railways' rates and charges.

Coastal shipping's main competitor has always been the Railways, as both forms of transport can offer relatively low cost rates for bulk haulage on the more important routes.

But rail rates have, from time to time, been set at levels which bear only passing resemblance to costs. The prime example being National's rail rate freeze of 12 months which was promptly extended by three years when a Labour administration took over.

COASTAL TRADER . . . State subsidises service.

The rail rate freeze is past history, but its rates are still at an artificially low level. As NZR management admits, the Railways are obliged to provide "social services", both freight and passenger . . . In other words, some lines do not return a profit on goods or passenger services.

A competing private enterprise shipping service would start at a disadvantage in that the Railways is not profitable, and apparently doesn't have to be, for the present at least.

On top of that, the Railways, in toto, are shortly to announce an annual deficit of something between $60 million and $70 million, a result for which they can hardly be blamed. But it is one which does not encourage existing or potential shipping lines.

Shipping services still however, survive:

- Shipping Corporation's Coastal Trader sails weekly from Auckland to Lyttelton and Dunedin carrying good loads southbound and poorer loads northbound. The service is subsidised.
- Union Company's Totara sails from Onehunga to Nelson, on a basic weekly schedule, carrying general cargo. It's the last conventional "grocery store" coaster carrying smallish consignments of almost anything which will fit through a hatchway or on to the deck.
- Union hauls coal, a trip about every 10 days, from Westport to the cement works at Portland near Whangarei. Coal from the much closer Huntly field would be cheaper, but it's not really the right grade for cement making.
- Union makes trips on an "as required" basis from Mount Maunganui to South Island ports hauling newsprint. The vessels used are the crane ships normally on the Tasman (Ngakuta, Ngapara and Ngahere). A trip is made every six weeks or so.
- Union bulk carriers work on the wheat trade. When the New Zealand wheat crop is good, voyages are made from the South Island northward, while if the local yields are down, the same ships bring wheat from Australia.
- Two small ships, shortly to be replaced by a bigger one, haul cement from Golden Bay to Wellington.
- Four coastal tankers distribute oil products around the coast, linking Marsden Point with main centres and some provincial ports. If a pipeline is built from the refinery to Auckland, one ship will probably be redundant.
- A cement ship sails regularly from Portland to Auckland.
- Two ships are available to carry Westport cement mainly to North Island ports — one ship was recently laid up, a sign of the less than buoyant state of the construction industry.
- The Railways have four rail ferries in service.

The total volume of coastwise cargo has tended to rise over the years, although the number of ships and ports of call have fallen.

Before the Marsden Point refinery was built, oil products were imported ready for use into ports round the country. With the refinery in use, oil products from Marsden Point bound for former oil importing ports is now "coastal".

The rail ferries killed several coastal services (in conjunction with the use of connecting trains of course), but ferry traffic is still "coastal".

What might be described, however, as "traditional" coastal shipping is almost non-existent by the standards of yesterday — only the Onehunga-Nelson service and the Auckland-South Island service by the Coastal Trader are still common carrier, take anything operations. Not counting rail ferries, the other runs are tied to specific bulk commodities.

Coastal shipping with general cargo vessels calling at a variety of larger and smaller ports up and down both Islands has proved vulnerable to railway competition.

What chances are there for a soundly based coastal shipping revival?

The qualifying phrase "soundly based" is necessary because the Labour Party, in its 1978 election manifesto, promised a weekly roll-on roll-off coastal cargo service covering major ports and with feeder services for smaller ports which cannot take roll-on ships. Ports in the latter category were listed as Gisborne and Wanganui and West Coast ports.

Such a service would have to be subsidised and would be in competition with the subsidised Railways. Only the state would risk the sort of money needed to start such a run.

I cannot see how such a service would generate much traffic so to all intents and purposes it would take traffic away from an existing operator or operators — the Railways would suffer most.

So we would have a state subsidised shipping service taking traffic away from the state subsidised Railways with no overall advantage and a thumping big increase in the national transport bill.

This highlights the disadvantage of competition in the field of service industries. If an industry is producing something tangible, and if it can have a surplus of production after fare filling local needs, it can go on into the export field — it can even dump the surplus overseas. But a service industry, such as internal transport, cannot quit its surplus capacity at a profit. Once it has filled the local demand, it has no way of producing more at a profit.

So if coastal shipping is to experience a renaissance, it can only be at the expense of some other operator (the Railways). If coastal shipping is to get off the ground in the present climate, only the state has the resources required. And the argument heads off on the same circular course, with internal injury being the only possible outcome.

Scenarios are trendy, so here's one which offers an alternative future:

The NZR becomes a corporation with its rate fixing freed from political control — imagine a Rail Services and Charges Authority a bit like the Air Services Licensing Authority if you're worried about NZR management setting rates with reference to no-one representing the people.

Suddenly, shipowners and potential shipowners find they can forecast with some certainty future rail rates . . . rates which at least must be sufficient to maintain a reasonable return in the face of inflation.

Then someone might be tempted to have a go at general coastal shipping services, doing the traditional job with up to date ships, providing regular runs precisely timetabled and competitive. Some rail routes could then probably be closed, holding transport overheads to a realistic level.

Some form of licensing of the coastal trade could be desirable to prevent over-capacity, ruinous competition by others wanting a slice of the cake and overall protection of investment might be called for.

This is one way coastal shipping could stage a come-back. Frankly I doubt that we'll ever see the day when it happens. For better for worse, governments seem to have accepted that the backbone of the internal transport system will be the NZR and I can't see that changing.

Containers: we're missing the full benefits

by Bob Stott

HAS containerisation lived up to its promise to deliver a better way of carting goods internationally?

To answer that question, we must estimate what freight rates would be today if containerisation had not been introduced. It's a complex task.

If New Zealand had stuck to conventional shipping, the service might have had quite low costs for a while insofar as the route might have become a dumping ground for conventional ships displaced from other runs. But that situation might have changed when those ships were replaced with new vessels.

So considerable research would be necessary to show if the introduction of containers has been a good move from this country's point of view.

The problem can be looked at from another angle: We now have container services and a residual conventional service. Thus it's easy to compare the costs of these two types.

A recent example will suffice — a shipper paid $50 a tonne in wharf handling charges for loading of carcass meat into a conventional ship using the time-honoured ship's gear and slings method.

The shipper was at that time paying $200 in wharf charges for the same type of cargo on a per container basis . . . and that $200 covered 15 tonnes of meat in a single container.

But because conventional ships are becoming rarer, their economics are not getting any better. And since secondary ports are shipping less meat, there is no incentive to introduce better handling methods such as the loaders at Timaru and Bluff. Yet such loaders might have been ubiquitous if containers had not been introduced.

Despite that, containers are cheaper but probably not as cheap as the $200 a box ($13.33 per tonne) rate.

The New Zealand Shipping Corporation which had experience operating two conventional refrigerated ships on the Europe run and is now gaining experience with its new cellular ship New Zealand Pacific, has no doubts that containerisation is better than conventional shipping.

New Zealand Pacific has been in service since September last year and up to 6000 tonnes of cargo can be exchanged in a single day. The normal capacity of a conventional ship was about 10,000 tonnes, and as shippers well remember such ships were not loaded at the same rate, a rate which would have allowed a two-day turn-round in New Zealand.

Instead, such ships were on the coast here for anything from four to eight weeks.

Largely because of the quick turn-round, the New Zealand Pacific replaces up to five of the old ships, yet her crew is no larger than that employed on a small conventional ship, while at the same time, wharf personnel are reduced.

Containerisation however, has not eliminated the sort of near shambles which developed with conventional shipping. In the 1960s there was increasing concern at the rate at which ships were being handled in New Zealand ports.

Ships were often awaiting berths, once berthed, they were idle awaiting labour or cargo or handling equipment or even an improvement in the weather.

Factors such as these prompted the introduction of containers. The new method went a long way toward solving these port problems — largely by shifting them elsewhere.

When containerisation was introduced, a modern concept using modern ships, new ports and new equipment was imposed on a total scene which had changed little.

The distribution chain started at 19th century freezing works with little hatches in cool store walls. Out of these, carcass meat would be slid one piece at a time into railwagons and, be shipped out of entirely modern ports.

New Zealand Railways was quick off the mark in building a large fleet of container wagons and road carriers followed with an increasing truck fleet suitable for containers, but the people who stood to benefit most, the users, have generally lagged behind.

Considerable investment would be needed to quickly fit export industries to effectively handle containers so that they could get the most out of the new system. So it was no surprising that many container users were not equipped to lift boxes from rail wagons.

As a result, many containers never leave wagons while they are in New Zealand.

This affects the cost of the operation — it means that the NZR has a wagon tied up carrying a couple of boxes as long as those boxes are in this country. If all shippers were able to release wagons by removing containers on receipt, fewer wagons would be needed and the total sum the nation has invested in this equipment would be lower.

We can perhaps ask which would have been more economic — to offer interest-free loans to firms to buy container handling equipment or to build extra wagons to carry containers standing at shippers' premises during unloading and loading?

Many users, particularly importers, have refused to extend their working hours to match the extended hours worked at container ports. The watersiders do not seem to have received much credit for having agreed to work on in the evenings and seven days a week — such extended hours are vital if a $100 million container ship is to be a sound investment.

At the same time, there are many users who even refuse to accept inward cargo after midday on Friday, apparently to avoid having staff working on in the evening. Road carriers would be prepared in most cases to work on a Saturday morning clearing cargo, but business and industry largely does not want to know.

Containerisation, in theory, is a sort of pipeline running from source of goods to final destination, without intermediate handling working seven days a week.

In New Zealand, to continue the pipeline analogy, the tap is still too often turned off from Friday afternoon till Monday morning. Pressure builds up at the ports, the very areas which tend to receive most of the flak when things go wrong.

Containerisation has lived up to its promise but the system is not being used properly. The shipping lines offer a better service, with less damage, loss of condition, pillaging, and so on. The internal transport services are generally geared up to carry containers. Some users have invested considerable sums to make the most of the system, in particular exporters of primary produce.

On the other hand, some users still don't appreciate the importance of all links matching the extended hours worked at ports, and until they do, the full benefits of containerisation will continue to escape us.

Chronic confusion hovers over fare structure

THE past year has seen major developments in the international aviation scene which have still not completely worked their way through the airline tourist and travel systems.

Politically, the International Air Transport Association was in effect bowled out of the game of fixing airline fares, although it is now making a comeback and trying to reassert its still substantial influence.

Ideologically the conflicting policies of the United States and Australia caused endless difficulties for both them and New Zealand as we tried to assess how other nations were going to react to the two Government's totally contradictory policy stands.

Economically it has been the year of constantly rising costs and in recent weeks the impact of an earlier than planned hike in the price of OPEC oil has sent airfares upward again.

Technically, the battle among planemakers for the substantial airline market of the 1980s got underway in earnest with manufacturers touting the virtues of their respective planes round the world and in some cases securing major orders.

Popularly however, the period will be remembered as the year in which air fares seemed to tumble making cheap travel open to all.

Last year the Ministry of Transport set up a committee of Government and airline officials to review New Zealand's international aviation policies, and their report is due to go to the Minister of Transport later this year.

Air New Zealand however, has given, in the meantime, a clear indication that it prefers moving more toward the American Government's policy of deregulation than it does toward the Australian policy of massive protectionism and duopoly in airline services.

The Carter policy of deregulation involves taking the controls off the airlines to let them set their own fares and choose their own routes. Already in the United States' domestic market, a strong tendency toward mergers among competing airlines has emerged. The Civil Aeronautics Board, under its few reserve powers, still has to approve these.

At the time of writing, the CAB had approved no airlines mergers which competed on the same routes. Industry analysts predicted last year that decontrolling the massive airline industry would inevitably result in fewer airlines and produce the monopolistic marketplace that the Carter policy was designed to prevent.

As the power of IATA weakened and bi-lateral agreements between governments became the dominant form of international aviation agreements, the Carter policy took this trend to its logical conclusion.

The United States and any other government would agree not to interfere in the operations of the airlines between those two countries. Airlines of either country wishing to fly to the other would be able to do so in a form of carriage, at the fares, routes, conditions, stopovers, and timing that the airlines so choose.

They would be able to enter and leave the marketplace pretty much as they liked. The only practices to be outlawed would be those disapproved of by both governments.

In the past, airlines' freedom was circumscribed by a clause requiring the approval of both governments before any particular practice was allowed. The United States wants to substitute a "double disapproval" clause for the present "mutual approval" clause, thus giving its airlines much more room to manoeuvre.

Closer to home, the Australians took a completely different course to achieve cheaper air fares. Their philosophy is based on the simple premise that for everyone to fly cheaper, more people must sit in aeroplanes and occupy the empty seats.

In practice, their policy is a strictly protectionist one and takes bi-lateralism to an extreme. The Australian Government is seeking agreements with each country to which Australia's airline Qantas flies. The right of entry to Australia for that other country's airline is pitched at the same level of access that Qantas wants to the other country.

That's fine on Qantas' one major route to the United Kingdom and it was relatively easy to reach an agreement with the British.

On that route, the policy can claim some success even if it did leave a lot of distraught Asian nations in its wake.

The Australians' efforts to patch up some kind of face-saving agreement with the ASEAN countries led by Singapore now looks like coming unstuck as the British jibe at the very limited terms of access to the cheap fares that Australia has allowed the ASEAN airlines.

According to Federal Transport Minister Peter Nixon, the 700 passengers the five ASEAN airlines are allowed between Australia and Britain and Europe each week are passengers Qantas and British Airways were not capable of carrying. The ASEAN countries, and again principally Singapore, continue to grumble at the stinginess of the deal, and the British regard it as too generous. Nixon sees it as the only possible compromise if his much vaunted cheap fares policy is to remain intact.

Allowing the ASEAN airlines into the deal, however limited the basis on which that access is based, does create a precedent which Air New Zealand and other airlines who like Air New Zealand have been cut out of much of the Australian market, will be able to use to bargain their way back in.

Meanwhile, the continuing row over the ASEAN participation is holding up our own cheap fare deal with the British, our most important market and seemingly the only route on which Air New

Continued on page 36.

Small airlines strike giant-size headaches

A REPORT on the development of third level air services will be in the hands of the Government and Industry later this year.

While the report which has been over a year in preparation may recommend some major changes to the operation of the small airlines within New Zealand, it seems unlikely that the changes will be ever introduced.

The changes have been in the wind since the middle of 1977, but got held up within the Ministry of Transport at that time and are now subject to further study, mainly by Air New Zealand.

The major change proposed then was to the Air Services Licensing Act which would have allowed Air New Zealand to lease some of its smaller loss making provincial routes to other airlines. These third level airlines would have then carried on the service on Air New Zealand's licence and under terms and conditions laid down by the airline.

The idea was for Air New Zealand to turn over routes which it could not hope to operate profitably, to some airline which could, because the third level company was using smaller equipment. A necessary condition of the operation was that any provincial centre involved would not lose out on the kind of service Air New Zealand was providing.

It is an ambitious idea which some parties wanted to take one step further. Air New Zealand and the Government — either directly or through some agency such as the Development Finance Corporation — would assist the third level airlines to buy new equipment suitable to operate the services.

And that's basically where the plan came unstuck. Finding a suitable aircraft has proved virtually impossible.

What's needed is an aircraft of 25-30 seats with a good freight capacity which has low operating costs on short runs and a low breakeven factor. Otherwise the studies have shown so far that sticking to the F27s are a better proposition.

Probably the most sophisticated alternative would be the British Aerospace Jetstream. Priced at $1.25m it is the dearest of the aircraft examined and carries only 18 passengers. Others which have been looked at include the deHavilland Twin Otter which carries about 20-22 passengers, and the Brazilian Bandeirante which has much the same passenger capacity. Both these aircraft are priced at over $1m each.

To buy enough to re-equip third level operators willing to take over some present Air New Zealand provincial routes would be an expensive proposition, beyond the financial resources of the present third level operators.

Even with financial assistance from Air New Zealand or the Government, the investment would hardly show an economic return. This would be so even if the savings to Air New Zealand were taken into account in the economic equations.

Air New Zealand's general manager (commercial) Matt Ramsden is not optimistic about finding a way out of the problem.

"Provincial cities and towns, having services with F27 aircraft, either have sufficient traffic to warrant such an aircraft, or the local opinion is held that an airliner such as the F27 offers a better standard of service in almost every way than the light aircraft which have been typical of third level airlines."

Ramsden says Air New Zealand's requirements for an aircraft involved in a third level operation on any of the airline's present provincial routes would have to "provide a level of passenger service and comfort consistent with that of the F27; match the operating standards of the F27; and save money compared with the F27".

He says for any change from the present system to be worthwhile to Air New Zealand, it would have to enable the airline to dispose of at least one F27. Simply reducing the number of hours that one of the airline's present Friendships operated would be pointless.

"To date we have had difficulty in fitting all these components together to produce a satisfactory equation."